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On the cover: *Shopping center, Park City, PA*
(Photo by Larry Lefever)



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With this issue, *Rural Development Perspectives* becomes *Rural America*. Neither the contents nor the volume numbers are changing, but our new look should be easier to read and will allow for a more imaginative use of graphics.

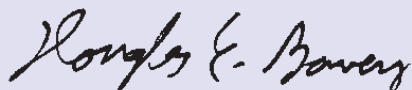
This issue begins with an article on rural consumer markets by Paul D. Frenzen and Timothy S. Parker. Most rural consumers live in markets served by a wide variety of businesses, even though rural markets have fewer people and lower per capita incomes than urban markets. However, a significant minority live in markets with a smaller range of goods and services. These areas are less likely to attract new residents, which puts them at risk for population decline and even less choice of goods in the future. Growing catalog and Internet sales and the development of large regional malls have helped alleviate the problem.

Encouraging manufacturing in rural areas has been a theme in American history since the early republic, but only since World War II has it been actively pursued as a rural development tool. Dennis Roth's article examines the literature and history of rural manufacturing and finds that theories have had to continually adjust as the realities of manufacturing have changed. Once thought to be viable only for natural resource-based industries and low-skilled, routinized work, rural areas more recently have come to be seen as feasible locations for high-technology and other higher wage industries. After falling off in the early 1980's, manufacturing employment has been rising in rural areas since 1993.

Government programs have substantially affected rural areas. Samuel D. Calhoun, Richard J. Reeder, and Faqir S. Bagi look at the distribution of Federal funds in that group of historically Black southern counties known as the Black Belt. The Black Belt has long had higher than average levels of poverty. On the whole, Black Belt counties receive more Federal funds per capita than most counties, but this is due mainly to money received by metro counties in the region. In nonmetro Black Belt counties, there is often a mismatch between the type of funding received and the county's needs. In many persistent-poverty counties, for example, relatively little goes to community resource programs, the sort of aid that might help create new jobs.

Welfare payments to families with children are being affected by recent welfare reform legislation, which has added work requirements and time limits to some important programs. Child poverty is especially severe in rural areas: 40 percent of all rural poor are children. Families with young or poorly educated parents, Black families, and single-parent households are especially likely to be poor. Carolyn C. Rogers and Elizabeth Dagata profile rural child poverty and discuss the particular problems that rural families face in coping with poverty.

A small but promising group of microenterprise programs is aimed at fostering entrepreneurship, especially among poor individuals, many of whom have been welfare recipients. As George Wallace explains, such programs have been used in a number of other countries and have recently begun to receive more attention in the United States. These programs often go beyond providing access to loans to include technical assistance and training, so that people not experienced in business can gain the skills necessary to become self-sufficient.



Douglas E. Bowers

Rural Consumer Markets

Paul D. Frenzen
Timothy S. Parker

One out of every nine Americans lives in a rural consumer market. The average rural market has fewer retail businesses and provides more limited shopping opportunities than the average urban market. However, there is a wide range in the number of different businesses in rural markets, and a majority of rural consumers live in well-served markets with many kinds of stores and services.

Businesses that sell directly to households need customers in order to survive and tend to locate in larger places with more potential customers. Urban centers consequently have more retail stores and services than rural areas, a pattern surely noticed by anyone who has travelled between the city and the countryside. But the uneven distribution of businesses doesn't mean that rural residents shop less than other consumers. In fact, rural residents often travel farther to shop than urban residents and may still have to do without products sold only in urban areas.

A closer look at rural consumer markets confirms that rural areas have a smaller variety of retail businesses than urban areas. However, most rural consumers live in markets with a large variety of businesses and have almost as many places to shop as urban consumers. Only a small minority of rural consumers live in markets with few of the retail stores or services found in urban places.

Identifying Consumer Markets

Consumer markets are the geographic areas where households do their regular shopping. Consumers will travel farther to buy specialized products like computer equipment than for basic necessities like groceries, creating a hierarchy of local and regional markets. Markets with large populations have more potential customers and can support a wider variety of businesses than markets with small populations.

Most definitions of market areas follow county boundaries because counties are the basic geographic units for reporting economic data. Widely used definitions of market areas include the 172 Economic Areas designated by the Bureau of Economic Analysis and the 494 Basic Trading Areas identified by Rand McNally & Company.

This study uses an alternative definition of market areas based on "commuting zones" to examine rural shopping opportunities. The 741 commuting zones were originally developed to identify local labor markets, using journey-to-work data from the 1990 census to identify groups of counties with strong commuting ties. However, commuting zones also correspond to local

consumer markets because routine shopping trips are subject to the same time constraints as daily commuting to work.

Information about the businesses in each commuting zone was obtained from the Bureau of Labor Statistics (see "Identifying Retail Businesses," p. 9). Forty-seven different kinds of businesses that provide consumer goods or services were examined, including retail stores, service firms, and some government agencies. Households did not necessarily need all 47 types of businesses included in the study, but there was likely to be some demand for each business in most communities.

Commuting zones that included only nonmetro counties were classified as rural consumer markets, based on the 1993 Bureau of the Census definition of metro areas. Other commuting zones included at least one metro county, and were classified as urban consumer markets. Complete information on businesses was available for 672 commuting zones. The other 69 commuting zones (including 44 classified as rural markets) were excluded from the study (see "Identifying Retail Businesses").

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Rural Markets Have a Smaller Variety of Businesses

Over 400 commuting zones were classified as rural consumer markets (table 1). Rural markets had smaller and poorer populations than urban markets. On average, rural markets had only 63,000 residents and a per capita income of \$16,564, while urban markets had 856,000 residents and a per capita income of \$22,346. The difference in customer demand made rural markets less attractive places for retail businesses than urban markets, particularly for businesses that needed a large customer base. Nevertheless, companies that neglected rural markets were ignoring nearly 27 million persons, or 1 out of every 9 consumers.

The average rural market had 35 of the 47 types of businesses included in the study, while the average urban market had 46 (table 1). The difference confirms that rural markets had a smaller variety of retail stores and services than urban markets. Rural consumers who needed

Table 1

Profile of consumer markets

Residents of rural consumer markets had lower incomes than urban residents, but represented one of every nine consumers

Consumer market	Number of markets	Total population, 1994	Average per capita personal income, 1994	Average number of retail business types
	<i>Number</i>	<i>Thousands</i>	<i>Dollars</i>	<i>Number</i>
Rural	422	26,701	16,564	34.8
Urban	250	214,046	22,346	45.6

Source: Compiled by ERS from Bureau of the Census 1990-94 Estimates of the Population of Counties data file, Bureau of Economic Analysis 1969-94 Regional Economic Information System data file, and Bureau of Labor Statistics 1995 ES-202 data file. Excludes 69 commuting zones without detailed business data.

products that were not sold in local shops had to travel elsewhere to buy them, have them delivered, find some kind of substitute product, or else do without.

The number of different kinds of businesses in rural markets ranged from 8 to 47, so some rural consumers had better access to

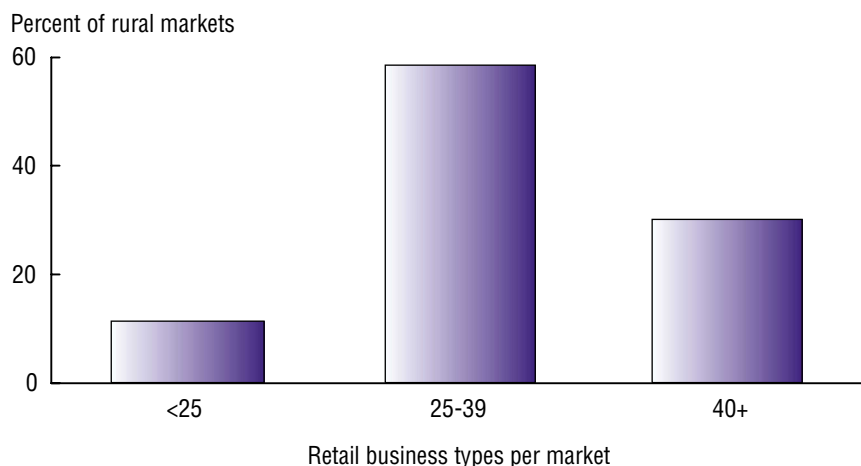
goods and services than others. There was less variation in shopping opportunities among urban markets, where the number of different

The difference in customer demand made rural markets less attractive places for retail businesses than urban markets, particularly for businesses that needed a large customer base.

Figure 1

Rural markets by number of different retail business types, 1995

Most rural markets have fewer than 40 business types



Source: Calculated by ERS using Bureau of Labor Statistics 1995 ES-202 data file.

businesses ranged from 39 to 47. The wide variation in shopping opportunities among rural markets was important for persons who preferred to live in places with a large selection of goods and services.

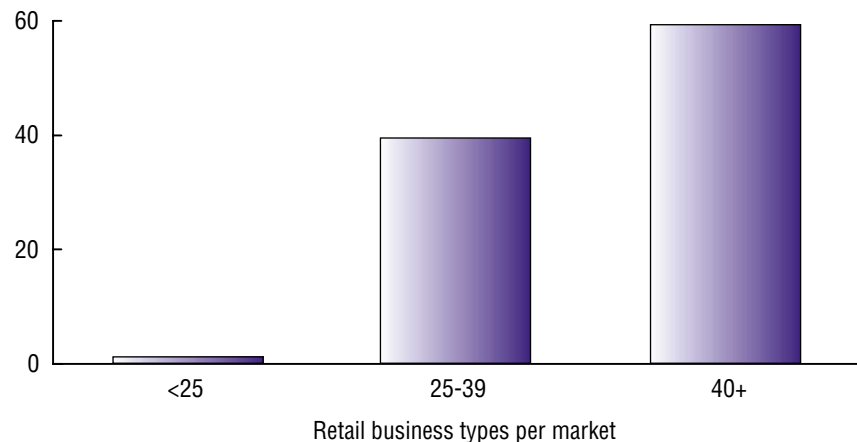
Rural markets with larger populations had more kinds of businesses. Population size was the most important single factor affecting the number of business types in rural markets when the effects of various factors (including per capita income) were examined. Because of the influence of population size on business location, rural consumers were

Figure 2

Rural consumers by number of business types in local market, 1995

Most rural consumers live in markets with 40 or more different businesses

Percent of rural consumers



Source: Calculated by ERS using Bureau of Labor Statistics 1995 ES-202 data file and Bureau of Census data.

concentrated in markets with more businesses. Well-served markets with 40 or more business types accounted for 30 percent of rural markets but included 59 percent of rural consumers (figs. 1 and 2). In contrast, poorly served markets with fewer than 25 businesses accounted for 11 percent of rural markets but only 1 percent of rural consumers.

Well-served rural markets with 40 or more kinds of businesses were located in all parts of the country (fig. 3). These markets had an average population of nearly 125,000 persons, providing a large customer base for businesses that sold specialized products (table 2). The total population of well-served markets increased nearly 5 percent during the early 1990's, in part because the wide variety of retail stores and services may have helped attract new residents.

Some well-served rural markets had a greater variety of businesses than many urban markets. For example, 31 rural markets had 45 or more kinds of businesses, and

provided more varied shopping opportunities than the 56 urban markets with fewer than 45 kinds of businesses. Four rural markets—as well as 102 urban markets—had all 47 businesses included in the study. These rural markets were centered around Flagstaff, AZ; Watertown and Plattsburgh, NY; and Athens, OH. Each of these markets had the

same range of retail goods and services found in most large cities. (Flagstaff was reclassified as a metro area in mid-1995 by the Bureau of the Census, and has since become an urban market.)

Poorly served rural markets with fewer than 25 kinds of businesses were concentrated in the Great Plains (fig. 3). These markets had an average population under 7,000 persons, and were unsuitable locations for a business requiring a large customer base. The limited variety of retail stores and services was an obstacle to local development, and may help explain why the total population of poorly served markets declined during the early 1990's (table 2). The three markets with the fewest businesses each included only one county, and were located in sparsely inhabited areas: Wayne County in southern Utah, Motley County in the Texas Panhandle, and Garfield County in eastern Montana. Each of these markets had fewer than 10 business types and 2,300 residents, and 2 of the 3 lost population during the early 1990's.

Table 2

Rural consumer markets

A majority of rural consumers lived in well-served markets with 40 or more different retail stores and services

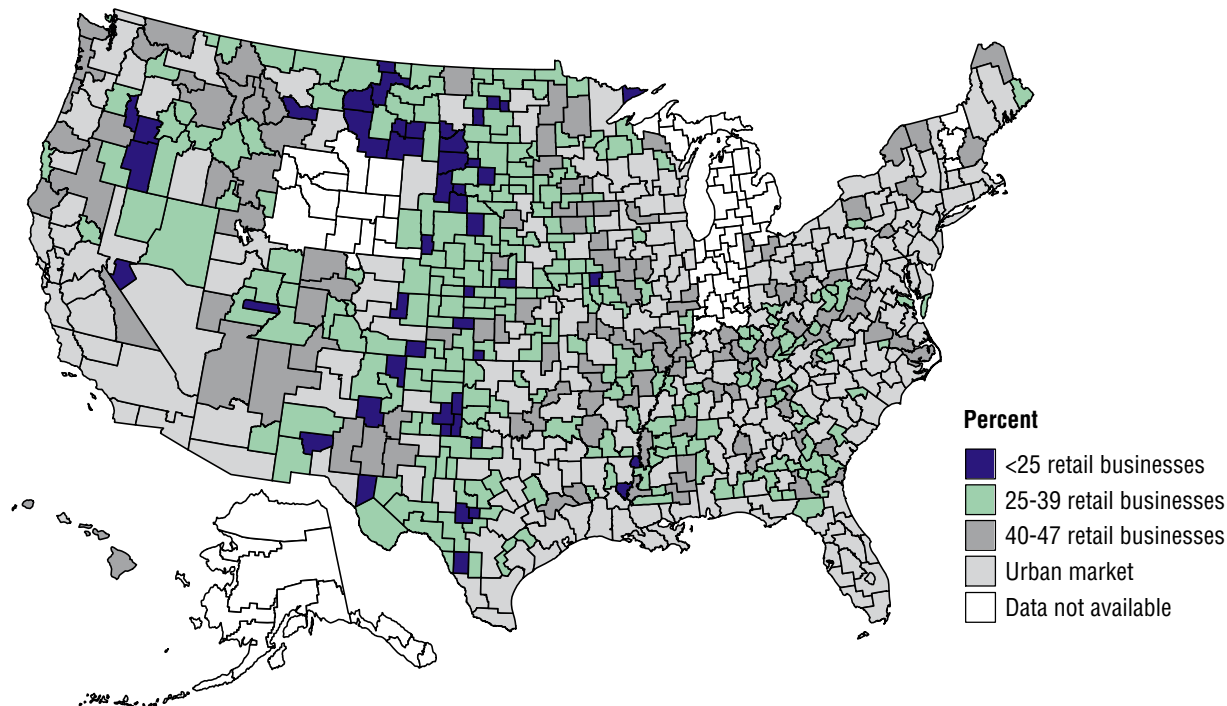
Number of retail business types	Number of markets	Total population, 1994	Average population per market, 1994	Change in total population, 1990-94
	Number	-----Thousands-----		Percent
<25	48	326	6.8	-0.5
25-39	247	10,546	42.7	2.3
40-47	127	15,829	124.6	4.6

Source: Compiled by ERS from Bureau of the Census 1990-94 Estimates of the Population of Counties data file and Bureau of Labor Statistics 1995 ES-202 data file. Excludes 44 commuting zones without detailed business data.

Figure 3

Rural consumer markets

Poorly served rural markets were concentrated in the Great Plains



Source: Calculated by ERS using data from the Bureau of Labor Statistics.

Some Businesses Are Rarely Found in Rural Areas

Three kinds of businesses—banks, grocery stores, and eating and drinking places—were present in every rural market (table 3). Another 17 businesses were present in at least 90 percent of rural markets, including gas stations, drug stores, doctor's offices, hospitals, hardware stores, florists, and beauty shops. Most of these businesses provided basic necessities like gasoline or medical care. The others sold products like cut flowers that were in wide demand but had low overhead costs, allowing them to locate in most rural markets (fig. 4). The remaining businesses were harder to find in rural areas. For example, four-fifths of rural markets had bakeries (fig. 5), but only one-half had computer stores (fig. 6) and just one-fifth had camera stores (fig. 7), leaving large areas of the country without a local dealer

specializing in computer or photographic equipment.

Residents of rural markets without specialized businesses like camera stores generally had to travel elsewhere or else arrange delivery to obtain specialized products like camera lenses or tripods. However, consumers could buy many other products sold by specialized businesses in grocery stores or convenience stores, which carry a diversified line of products. Grocery stores offer many of the same goods sold by drug stores, liquor stores, bakeries, candy stores, fruit and vegetable markets, tobacco stores, and newstands.

Convenience stores are often combined with gas stations, and typically sell prepared foods, groceries, candy, packaged baked goods, health and beauty items, alcohol and tobacco products, and newspapers and magazines (see "Convenience Stores"). The wide-

spread distribution of grocery stores and gas station-convenience stores in rural areas ensures that a large variety of goods is available to rural consumers, although specialized dealers like bakeries may offer a larger selection and better service.

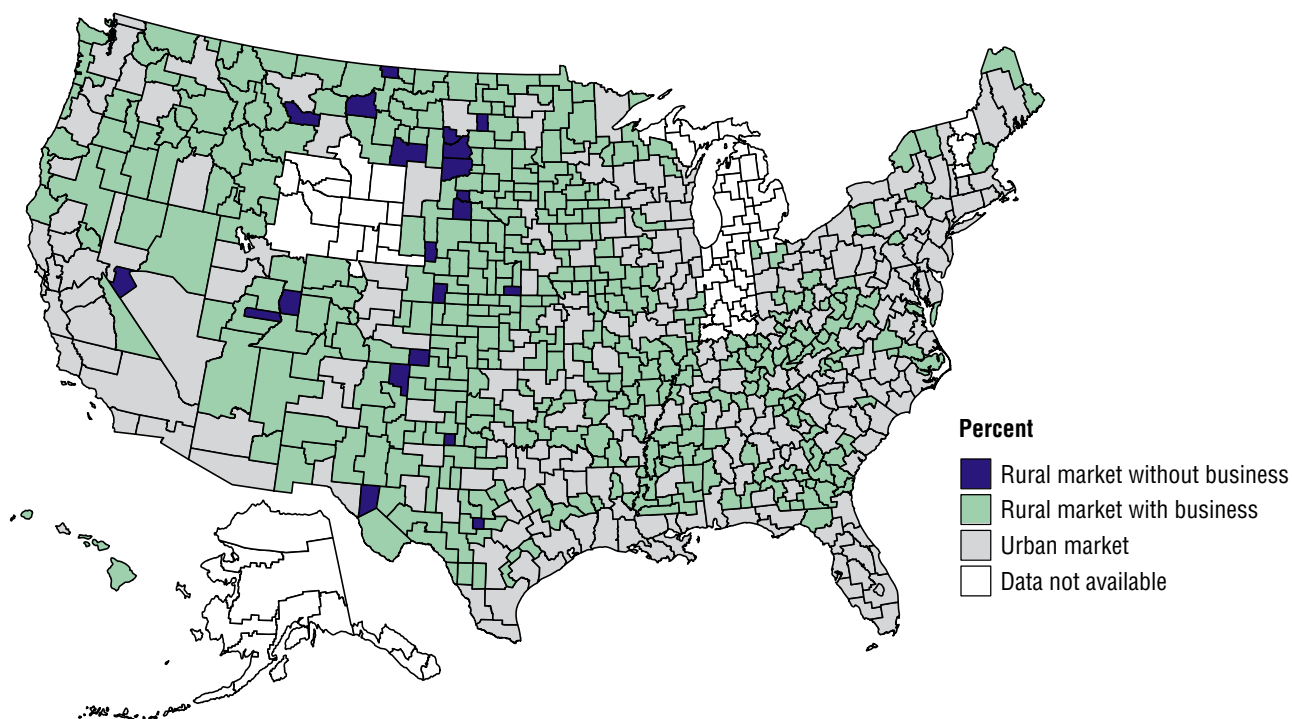
Some rural markets that lacked a particular retail business may have been large enough to support that kind of business. However, chance events may have resulted in the temporary closure or failure of an existing business, especially in markets that were too small to support more than one shop of the same kind.

Retail businesses were much easier to find in urban than rural areas. Twenty-eight businesses, ranging from banks and grocery stores to men's clothing stores and health clubs, were present in every urban market. Only five businesses—intermediate-care facilities, RV parks, fruit and vegetable markets,

Figure 4

Florists by consumer market

Most rural markets had at least one florist

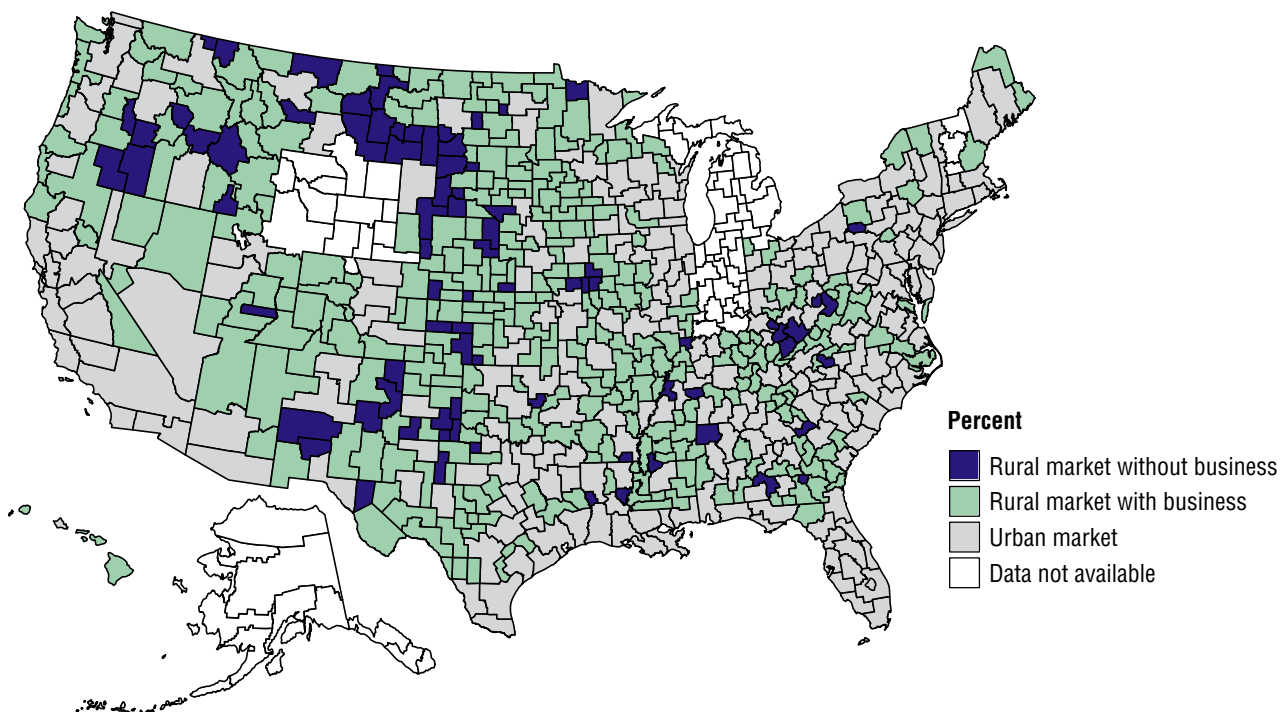


Source: Calculated by ERS using data from the Bureau of Labor Statistics.

Figure 5

Bakeries by consumer market

Four out of five rural markets had a bakery

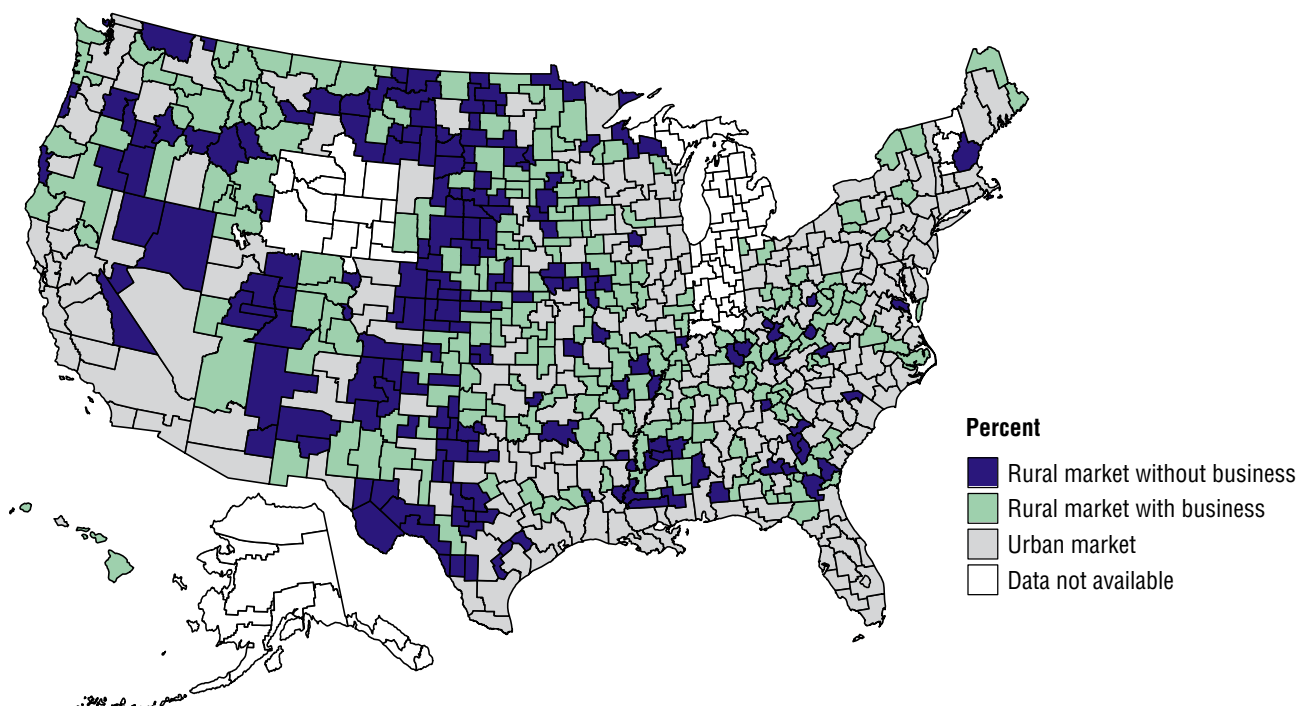


Source: Calculated by ERS using data from the Bureau of Labor Statistics.

Figure 6

Computer and software stores by consumer market

A majority of rural markets had a computer store

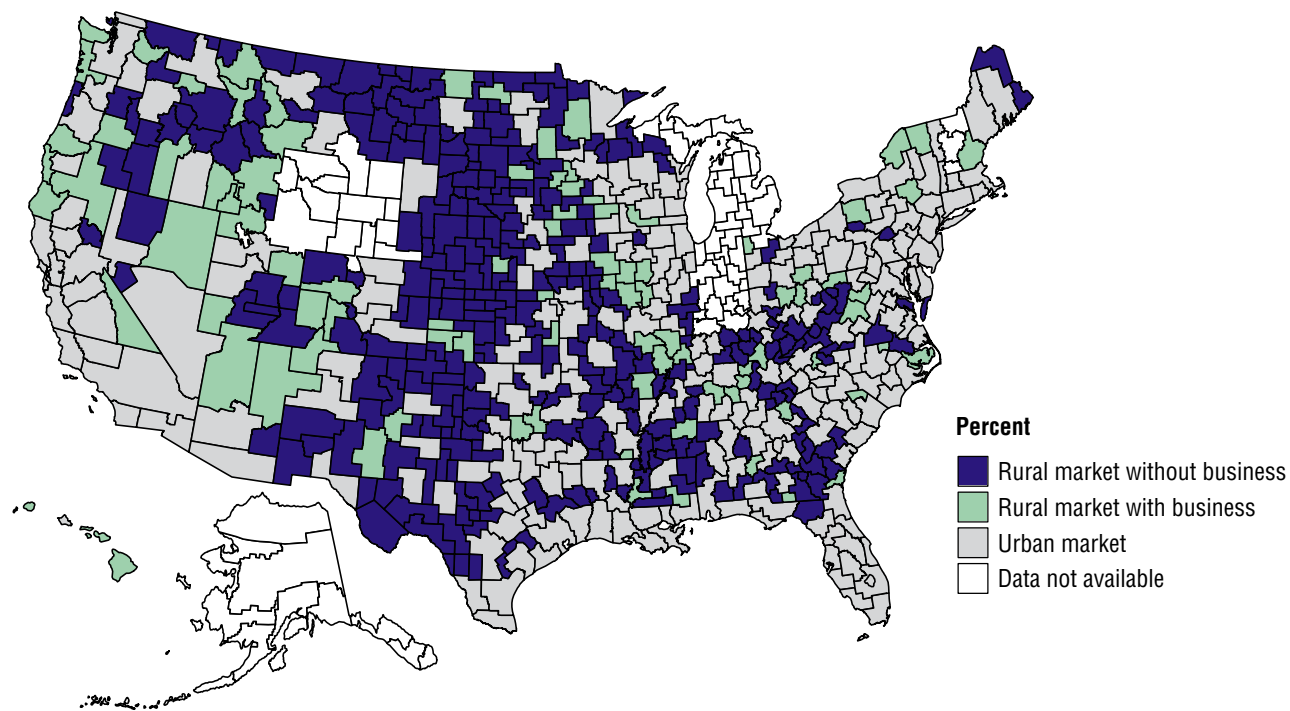


Source: Calculated by ERS using data from the Bureau of Labor Statistics.

Figure 7

Camera and photo supply stores by consumer market

Only one-fourth of rural markets had a camera store



Source: Calculated by ERS using data from the Bureau of Labor Statistics.

Table 3

Retail businesses in rural consumer markets, 1995

Some businesses were present in most rural markets, but others were rarely found in rural areas

Business (SIC codes)	Markets with at least one establishment		Markets with two or more establishments	
	Rural	Urban	Rural	Urban
<i>Percent</i>				
Bank/savings & loan (6021, 6022, 6029, 6035, 6036)	100.0	100.0	98.1	100.0
Eating/drinking place (5812, 5813)	100.0	100.0	100.0	100.0
Grocery store (5411)	100.0	100.0	99.5	100.0
Gasoline service station (5541)	99.1	100.0	98.1	100.0
Hotel/motel (7011)	99.1	100.0	96.2	100.0
Drug store (5912)	98.3	100.0	92.9	100.0
Legal advice (8111)	98.3	100.0	96.9	100.0
Doctor's office/clinic (8011, 8031)	98.1	100.0	93.4	100.0
General hospital (8062)	97.6	100.0	81.0	99.2
Dentist (8021)	96.9	100.0	92.4	100.0
Department/variety/general store (5311, 5331, 5399)	96.9	100.0	93.1	100.0
Accounting/tax return preparation (7291, 8721)	96.7	100.0	93.4	100.0
New/used motor vehicle dealer (5511, 5521)	96.7	100.0	92.2	100.0
Hardware store (5251)	95.7	100.0	86.5	100.0
Florist (5992)	95.0	100.0	87.9	100.0
Child day care (8351)	94.8	100.0	87.0	100.0
Funeral home (7261)	93.4	100.0	80.8	99.6
Beauty shop (7231)	92.4	100.0	87.2	100.0
Women's clothing/accessories (5621, 5632)	90.8	100.0	78.0	100.0
Optometrist (8042)	90.0	100.0	77.0	100.0
Skilled nursing facility (8051)	87.7	100.0	73.0	100.0
Video tape rental (7841)	85.8	100.0	73.7	100.0
Liquor store (5921)	84.4	98.0	69.7	96.8
Movie theatre/drive-in (7832, 7833)	81.0	98.8	52.1	98.0
Bakery (5461)	80.8	99.6	61.8	99.6
Bowling center (7933)	79.1	100.0	47.6	94.8
Shoe store (5661)	78.9	100.0	67.3	100.0
Library (8231)	77.5	97.2	59.2	89.2
Home health care (8082)	76.8	99.2	61.8	98.4
Photo portrait studio (7221)	72.5	100.0	49.5	99.2
Book store (5942)	65.4	100.0	49.5	100.0
Men's clothing/accessories (5611)	63.3	100.0	42.2	99.6
College/university (8221)	63.0	98.4	39.1	91.2
Health club/gymnasium (7991)	58.5	100.0	32.9	98.0
Computers/computer software (5734)	55.0	98.8	31.5	97.6
Eyeglasses/optician (5995)	53.6	98.8	34.1	98.0
Intermediate-care facility (8052)	51.9	80.8	32.9	61.6
Children's and infant's wear (5641)	50.0	94.8	20.6	85.2
Museum/art gallery (8412)	47.6	94.8	25.4	81.6
RV park/campground (7033)	46.2	88.0	28.4	76.8
Records/tapes (5735)	44.5	98.8	24.9	96.4
Candy/nut store (5441)	34.1	93.6	16.1	82.0
Passenger car rental (7514)	28.9	96.4	16.6	90.0
Fruit and vegetable market (5431)	25.1	84.0	10.0	71.2
Camera/photo supply (5946)	22.3	90.4	6.6	74.8
Tobacco store (5993)	19.7	79.2	6.9	55.2
Newstand (5994)	14.0	66.4	3.3	48.8

Source: Compiled by ERS from Bureau of Labor Statistics 1995 ES-202 data file. Excludes 69 commuting zones without detailed business data.

tobacco stores, and newstands—were present in fewer than 90 percent of urban markets.

Rural Consumers Have Fewer Alternative Places To Shop

A retail business may be represented in a market by one or more separate shops or establishments. Consumers have more choices about where to shop in markets with two or more establishments, and also benefit from business competition when the establishments are owned by different firms. Even when one firm owns all of the establishments in a market, consumers can still choose where to shop based on convenience. Unfortunately, this study could not distinguish markets with competing firms because our information on businesses was based on counts of establishments rather than firms.

Some retail businesses were represented by at least two establishments in most rural markets, giving rural consumers a choice of places to shop (table 3). Every rural market had at least two eating and drinking places, although it was unclear whether every market actually had a choice of places to eat because this category included both restaurants and bars. Eleven other businesses—including banks, grocery stores, gas stations, drug stores, doctor's and dentist's offices, and car dealers—had multiple establishments in 90 percent or more of rural markets. Most rural consumers consequently had a choice of places to buy the goods or services provided by these businesses.

Sixteen other businesses ranging from hardware stores to movie theatres had multiple establishments in at least half of all rural markets. The remaining businesses, ranging from photo portrait studios to newstands, had multiple estab-

Identifying Retail Businesses

Information about the retail businesses in each commuting zone in 1995 was obtained from the Covered Employment and Wages program operated by the Bureau of Labor Statistics (BLS), commonly called the ES-202 program. Under this program, the BLS tabulates employment and wages by industry based on quarterly reports submitted by employers subject to State unemployment insurance laws and by Federal agencies. The ES-202 data file includes monthly counts of the number of establishments with hired employees classified by 1987 Standard Industrial Classification (SIC) code and county. Self-employed workers and certain categories of agricultural, railroad, government, domestic, and nonprofit employees are excluded. This study used an unsuppressed version of the ES-202 file obtained by special arrangement with BLS. Sixty-nine commuting zones were located wholly or partly in five States (Alaska, Indiana, Michigan, New Hampshire, and Wyoming) that did not authorize release of the unsuppressed ES-202 data, and were therefore excluded from the study.

The four-digit SIC codes on the ES-202 file reflect the primary economic activity of establishments. Establishments that could not be classified in a single SIC code because they were engaged in two or more distinct activities were treated as two or more separate establishments and assigned the appropriate SIC code for each activity when store records distinguished the employees, payroll, and sales associated with each activity. Otherwise, establishments engaged in two or more distinct activities were classified according to the activity responsible for the largest share of sales, receipts, or revenue.

The different kinds of retail businesses in each commuting zone were identified using the ES-202 file. The study focused on 47 businesses that met 2 criteria. First, the four-digit SIC code for the business was defined narrowly enough to ensure that establishments classified under the code provided the same goods or services. Second, most establishments classified under the code were likely to have hired employees, and were therefore covered by the ES-202 program and included in the ES-202 file. Some businesses, such as household appliance stores (SIC 5722), did not meet the first criterion because establishments classified under this code did not all sell the same kinds of appliances. Other businesses, such as barber shops (SIC 7241), did not meet the second criterion because many establishments were operated by self-employed owners who did not have any hired employees.

In several cases, two or more SIC codes were combined into a single category because the establishments classified under each code provided essentially the same goods or services. For example, the business identified as “banks and savings and loans” in this study includes establishments classified under five separate SIC codes: national banks (SIC 6021), State banks (SIC 6022), other commercial banks (SIC 6029), federally chartered savings institutions (SIC 6035), and other savings institutions (SIC 6036). The SIC codes for each retail business included in the study are reported in table 3.

Each retail business was considered to be present in a commuting zone when the average monthly number of establishments in the commuting zone during 1995 was one or more. Businesses represented by two or more establishments in a commuting zone were also distinguished from those represented by only one establishment.

lishments in fewer than half of rural markets.

Business owners benefited from a local monopoly in markets where a retail business was represented by only one establishment. Businesses that were most likely to have a monopoly in rural markets included movie theaters, bowling centers, health clubs, and children’s clothing stores (table 3). Each of these businesses was represented by a single

establishment in one-fourth or more of all rural markets. (The proportion of markets with local monopolies is determined by subtracting the percent with two or more establishments from the percent with at least one establishment.)

Retail businesses were more likely to have multiple establishments in urban than rural markets, so urban consumers had more alternative places to shop than rural con-

sumers. Twenty-two businesses had multiple establishments in every urban market. Another 15 businesses had multiple establishments in at least 90 percent of urban markets.

Local Shopping Opportunities Matter

The uneven geographic distribution of retail businesses affects rural consumers. A majority of rural con-



Shopping center. Photo courtesy Jack Harrison.

sumers live in well-served markets with at least 40 different kinds of businesses, and can shop locally for a wide range of goods and services. However, other rural consumers live in markets with fewer businesses and a smaller range of goods and services. Residents of these areas can obtain additional products by travelling elsewhere or having them delivered, but long-distance shopping trips and delivery charges raise the costs of goods and services. The additional expense increases the cost of living outside well-served markets, and may make such areas less attractive than other places for most people.

Rural communities are also affected by the uneven distribution of retail businesses. People looking for new homes in rural areas tend to settle in well-served markets where local shops offer a wide range of goods and services. Other areas with fewer businesses are unable to provide the same variety of shopping opportunities, and are

less attractive to potential residents. Rural communities that fail to attract enough new residents to replace people who move away or die are likely to experience a decline in population, and risk losing businesses as their population declines. Communities that lose

businesses become even less attractive to potential residents, accelerating the cycle of population loss and economic decline.

Some recent trends in the retail sector of the U.S. economy have made it easier for rural consumers to order products that are not avail-

Convenience Stores

There were over 82,000 convenience stores in the United States in 1995. Nearly 78 percent of these establishments sold gasoline, as well as groceries and a variety of other products. The 1987 SIC system does not include a four-digit code for convenience stores. Most convenience stores are therefore classified as either gas stations (SIC 5541) or grocery stores (SIC 5411) in the ES-202 data file, depending on store recordkeeping practices and the share of total sales from gasoline, groceries, and other items. Gasoline accounted for three-fifths of total annual sales for the convenience store industry, suggesting that most convenience stores that sold gasoline were classified as gas stations. The 1987 SIC system was superseded by the North American Industry Classification System (NAICS) in 1997. It will be easier to identify convenience stores when government business data are tabulated by the NAICS because the new scheme includes two five-digit codes for convenience stores: convenience stores without gas (NAICS 44512) and gas stations with convenience stores (NAICS 44711).

able in local stores. These trends include the growing popularity of catalog shopping and the rapid increase in the number of products for sale over the Internet. Other trends have facilitated long-distance shopping trips, especially the construction of giant shopping malls that are located near tourist attractions or else have become attractions in their own right. The most

notable example is the Mall of America in Bloomington, MN, which now attracts 35 to 40 million annual visitors from surrounding States. Rural consumers who live outside well-served markets can take advantage of these trends to obtain a wider variety of goods and services, but they are unlikely to ever have as many local places to shop as other Americans.

For Further Reading . . .

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Thinking About Rural Manufacturing

A Brief History

Dennis Roth

Rural manufacturing received a big impetus during World War II and has since become an important part of the economy of rural America. Various concepts, such as agglomeration, product cycle, and the filtering-down process, have been used to explain rural manufacturing; the historical development of these concepts is discussed here. After declining in the 1980's, rural manufacturing has rebounded in the 1990's. The increasing use of technology by manufacturers in rural areas holds out hope that these areas will increase their share of skilled and high-paying manufacturing jobs.

Until World War II, American manufacturing capacity was heavily concentrated in the cities of the Northeast and upper Midwest. Beyond these urban enclaves lay small-town America, with an economy largely dependent on agriculture and natural resources. Although the continental United States was never directly threatened by hostile military action, the war unleashed forces that altered the landscape of economic activity, dispersing factories into regions where they had not existed previously. Manufacturing plants began to appear in small towns and rural hinterlands, though this modest trend did not attract much scholarly attention until the late 1950's. Before then, the concept of rural manufacturing would have been a contradiction in terms for most people. However, as with many apparently novel ideas or developments, rural manufacturing had historical roots that long predated the emergence of countryside smokestacks.

Rural Manufacturing and the Jeffersonian Ideal

According to Thomas Jefferson and his followers, farmers were God's chosen people, made independent and virtuous by honest toil on land they owned. Cities, on the other hand, bred poverty and dependence and weakened the moral fiber needed to sustain democracy. Thus, Jeffersonians advocated policies that would strengthen farm communities and the rural craftsmen supporting them. Influenced by Jefferson, some early advocates of industrial development looked to the countryside rather than to cities as ideal sites for factories. This was not an outlandish proposal at a time when water was still the dominant form of energy used to power the machinery in gristmills, sawmills, and textile mills. Rural factories, "by the fall of waters and the rushing stream," in the words of the Society for Encouragement of Domestic Manufactures, should be promoted because they used an environmentally safe form of energy while giving industrial workers the healthy benefits of country living. When Boston capitalists opened textile fac-

tories in the new town of Lowell, MA, in 1822, they had high expectations of saving the United States from the industrial squalor that was overtaking parts of England. Rural residents, on the other hand, were not always willing to encourage urban entrepreneurs, fearing that the presence of factory workers and wealthy capitalists would undermine stable and relatively homogeneous communities.

Of course, these hopes of combining industry and agriculture were not fulfilled. Within a few decades, the New England textile towns were urbanized and the displacement of water by steam and electrical power created economies of scale that favored big cities. Farm and factory went their separate ways and the possibility of joining them was not broached again until the Country Life Movement of the early 20th century.

The Country Life Movement

This movement—loosely composed of academics, journalists, and government officials, many of whom were first-generation farm-to-city transplants—arose as a response to the rapid rural outmi-

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gration of the late 19th century and the growing economic, social, and cultural disparities between countryside and city. For the first time in American history, rural areas were seen as a source of “problems” that required solutions. Country Lifers studied ways to improve rural schools, churches, transportation, and markets, and in 1908, the Country Life Commission, appointed by President Theodore Roosevelt, briefly mentioned stimulating “light industry” as one, albeit minor, way of stabilizing rural populations. Nothing concrete was done to encourage rural manufacturing, but the idea had again been placed into at least limited circulation. When the Great Depression struck in 1929, the idea grew.

The New Deal— The Federal Government Begins To Stimulate Rural Manufacturing

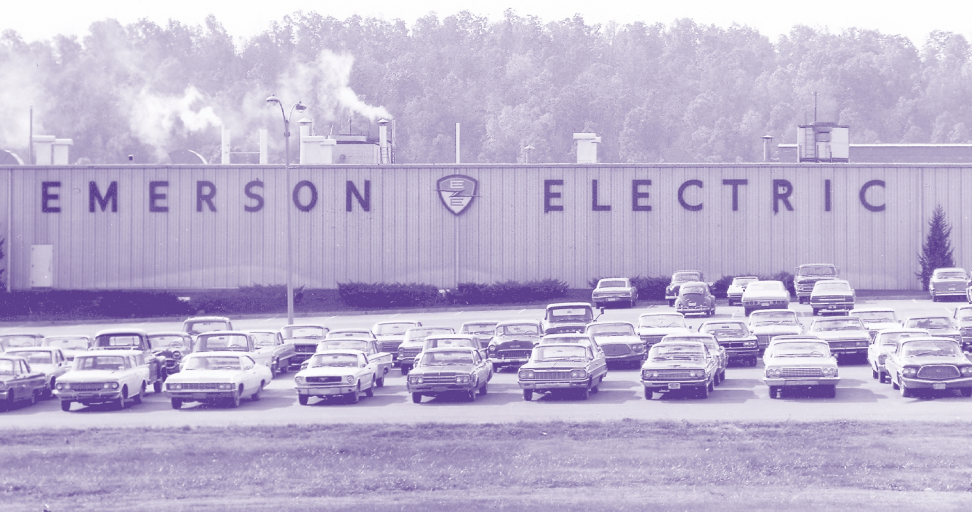
As a boy, Franklin D. Roosevelt spent his most enjoyable days in the countryside of Hyde Park, NY. Throughout his life, he retained a

preference for rural ways. In order to help distressed rural communities during the Depression, he proposed marrying agriculture and industry to form what he called “rural industrial groups,” a broad program for decentralizing industry and giving families an opportunity to combine factory employment with rural living. Therefore, in 1932, while governor of New York, he sponsored a program to establish 244 “stranded” industrial families on “subsistence” farms in various parts of the State.

When he became President, several of his New Deal agencies, such as the Subsistence Homestead Division of the Department of the Interior, carried this project forward. The idea was to build communities that provided their citizens both with small subsistence farms and off-farm employment opportunities. Later, the Resettlement Administration and its successor, the Farm Security Administration in the U.S. Department of Agriculture, continued this work. However, with both agriculture and industry in crisis

during most of the 1930’s, it was difficult to move beyond pronouncements to a real program of rural industrialization. For the most part, the kind of “industry” established in New Deal resettlement communities was of the handicraft or cottage industry variety. Of much greater significance for the future of rural industry was the work of New Deal agencies, such as the Tennessee Valley Authority (TVA) and the Rural Electrification Administration (REA), as well as State road-building commissions, which provided essential elements of infrastructure that would be needed by manufacturers.

As TVA and REA were beginning their work, Mississippi in 1936 became the first State to offer subsidies to attract new industries. In the next several years, many other southern States followed suit. At first, most migrating industries settled in southern cities but, because the South was the most rural region in the East, some branch plants of northern-based companies also ended up in small rural towns. That rural industrialization began in the South was the result of its proximity to eastern cities and its abundance of labor. (Textile mills began to move into the South as early as the 1890’s.) Although the rural South experienced great outmigration in the 1930’s and beyond, it still had the most densely settled rural areas with potential pools of cheap and available labor. And perhaps because of its vanguard status in this regard, many of the modern “prophets” of rural development came from this region. Among the most notable were True D. Morse, who as USDA’s Under Secretary of Agriculture from 1953 to 1960 during the Eisenhower Administration began the Federal Government’s postwar rural development program, and Assistant Secretary John Baker (1961-69), who was a



Emerson Electric of Russellville, Ky. Photo courtesy Soil Conservation Service.

leader during the Kennedy-Johnson era.

During World War II, the groundwork for a much more expansive industrial growth was laid in the South, as well as other parts of the country. Factories were moved or newly built away from potential attack on the east and west coasts, military posts sprang up in many rural areas, populations were redistributed, and millions of rural people received training either in the military or in war-related industries. The century-long clustering of industrial activity in the Northeast was beginning to break down.

The National Planning Association's 1947 Report on Southern Industry

In 1947, the National Planning Association became the first organization to take a serious interest in this trend toward industrial dispersal and it commissioned two Duke University professors, Glenn McLaughlin and Stefan Robock, to study it. Their book, *Why Industry Moves South*, was published 2 years later. Produced during the earliest years of the postwar economic boom, the book forecast a bright future for southern (and southern rural) industrialization.

During World War II, the century-long clustering of industrial activity in the Northeast was beginning to break down.

The authors claimed that their research was the first case study of industrial location, all previous efforts having been “theoretical or statistical analyses of aggregate data.” They were also the first to use survey methodology, in this instance personal interviews “on the

assumption that businessmen would take time to talk about their plant location decisions, but would not be likely to fill out a lengthy questionnaire.” Ironically, according to the authors, almost all of their interviews were conducted in northern cities, the home bases of virtually all of the southern branch plants.

A prewar survey would have focused almost entirely on timber and textile plants but, southern industry having diversified considerably during the war, this study encompassed chemicals, farm equipment, tires, auto assembly, electrical equipment, aluminum, footwear, and food products as well. Only a sample of plants was included, because in 1947, the South already had 39,699 manufacturing establishments, an increase of 33 percent over the 1939 total.

The authors looked at markets, materials, and labor and concluded that, in general, the availability of new markets or the proximity to old ones was the main reason for locating industry in the South. They cited the establishment of a large Celanese plant in Rock Hill, SC, near the growing textile industry of the Carolinas; farm machinery factories to supply an increasingly mechanized southern agriculture; or plants in Kentucky and Arkansas to supply northern and western markets. But when they discussed operations in small towns of 25,000 inhabitants or fewer, they usually emphasized the availability, tractability, or low pay of local labor. For example, they found that in the shoe industry—because the value of the finished product was high in relation to weight—transportation costs were of small concern compared with labor costs. As a result, lower labor costs “have made the South and rural areas in general more attractive for shoe plants than

urban areas and the Northeast.” In the southern textile industry, low rural wages had always been an attraction, but in the postwar environment of growing labor unions, northern labor strikes, and high job turnover, abundant sources of nonunionized labor meant that manufacturing plants could work around the clock without interruption. Many companies looked for small towns where they would be the major employers and chief political arbiters and avoided towns with established industries where they might get the “dregs” of the labor supply and be excluded from political influence.

Summarizing their survey data on southern labor, McLaughlin and Robock concluded that large plants moved to cities where they could obtain the quantity and variety of workers they needed but that, all things being equal, a majority of plants preferred to locate outside of large metropolitan areas to avoid high property taxes and any “labor disturbance which might affect labor generally within a large population area.”

In addition to the specific information that it provided, *Why Industry Moves South* demonstrated the ability of surveys and case studies to capture trends that are not always readily apparent in analyses of aggregate data. For instance, in 1960, Harvey S. Perloff and Edgar S. Dunn, Jr., co-authored *Regions, Resources and Economic Growth*, based on 1950 census data. They found that regional disparities had lessened since 1910, but that the amount of change was not great. Most new industrial activity was in the Upper Midwest, which was already heavily urbanized. The older urban-industrial areas tended to “sustain the greatest relative losses in manufacturing employment,” but

it was “no longer true that the more rural-agricultural states necessarily experience the greatest net upward shifts.”

Although they were unable to isolate any pronounced trend in the location of industry, Perloff and Dunn did note important changes in the national economy. Every region could expect to enjoy rising levels of income and production if some were “willing to face up to the need for a relative ‘emptying out’ [i.e., of agricultural regions] when the overall situation with regard to relative advantages among regions calls for it.” But if such regions, especially those that had been densely settled, were to lose agricultural population, how long could that continue before their habitable spaces would be occupied by other forms of economic activity? In other words, if agriculture alone could no longer sustain an adequate population base, something else would. In retrospect, then, Perloff and Dunn’s emphasis on equilibrium forces in the national economy was also consistent with the idea that urban and rural economic differences were decreasing and with a corollary assumption that there was a kind of inevitability to rural industrialization as a demographic replacement for agriculture.

Rural Industry Takes Off, 1955 to 1970

By the early 1950’s, improvements in agricultural technology and productivity were having a powerful effect on the rural landscape. The number of farms was decreasing rapidly, threatening many small rural communities that depended on agriculture for their economic survival. In 1954, Under Secretary of Agriculture True D. Morse launched the Federal Government’s first sustained investigation, since the New Deal, into the problems of

low-income farmers and nonfarm rural populations. In 1955, USDA economists published *Development of Agriculture’s Human Resources*, including several recommendations concerning rural industrialization. Very little Federal money was invested to implement these proposals, but government exhortation and “cheerleading” did stimulate wider interest in the interrelated issues of rural development and rural industrialization. By 1960, an increasing number of researchers were publishing articles and monographs on these topics. Virtually all of these were case studies dealing with the impact of specific industries on small rural towns. In later years, analysts confirmed that these were important years in the spatial redistribution of American manufacturing. By the mid-1950’s, a broad-based regional dispersal was taking place and then, beginning approximately in 1958, industry began to move increasingly into nonurban areas.

During the Kennedy and Johnson administrations, the modest rural development program begun by Morse was transformed into a multipronged attack on rural poverty and unemployment. Such agencies as the Office of Economic Opportunity, the Appalachian Regional Commission, the Economic Development Administration in the Department of Commerce, and the Farmers Home Administration in the Department of Agriculture invested billions of dollars in loans and grants to stimulate industrial development in poor and distressed rural areas. In the 1960’s and 1970’s, many commentators questioned the value of these programs and assumed their association with the growth of rural manufacturing was purely coincidental. From 1960 to 1970, manufacturing grew by

only 4 percent in metro areas but 22 percent in nonmetro areas, with even stronger growth in sparsely populated areas. By the 1980’s, when rural industry was in distress and Federal funding was down, rural development experts were more willing to concede some efficacy to these once-maligned programs.

The 1960’s also witnessed a growing scholarly interest in rural manufacturing, and it was this decade that produced some of the most important critical concepts in the field. Surprisingly, until the early 1970’s, when demographic evidence of a rural population turn-

From 1960 to 1970, manufacturing grew by only 4 percent in metro areas but 22 percent in nonmetro areas, with even stronger growth in sparsely populated areas.

around became clear, many economists refused to accept rural industrialization as a real phenomenon. For 50 years, economic theory had affirmed that industries clustered together or “agglomerated” because of favorable backward and forward linkages with each other and because of their proximity to specialized services and labor in cities. Economic theory could justify the location of only natural resource industries in rural areas. Thus, studies of rural manufacturing were dismissed as anecdotal. Theory, however, was being modified to accommodate the growing body of empirical evidence, especially with the introduction in 1966 of the notion of a “product cycle” in the manufacturing process, and in 1969 of a locational “filtering-down” of stages of that cycle to areas with the best combination of productive factors.

According to product-cycle theory, new industries begin life as innovating enterprises requiring limited amounts of capital but large quantities of skilled labor and sophisticated services. As they mature and satisfy market demand, their production becomes routinized and less dependent on concentrations of skilled labor and services. Once production has been routinized, manufacturing branch plants can be filtered down to places with less costly and less skilled labor, while top management exercises overall control from urban headquarters. These ideas took a few years to percolate through the profession but, once they had, they were provisionally accepted as explaining the data on rural industrialization.

The 1970's—Interest in Rural Manufacturing Grows

The 1970 census figures showing a population turnaround in many nonmetro counties further stimulated interest in rural manufacturing. In previous years, economists had dominated this field of study, but in the 1970's, they were joined by an increasing number of sociologists, geographers, and political scientists. During this decade, the first books on rural manufacturing were published; these books examined the social and economic effects of rural industrialization and, to varying degrees, the implications of the filtering-down phenomenon for the future development of rural economies.

Written in 1976 by sociologist Gene F. Summers and several of his graduate students at the University of Wisconsin, *Industrial Invasion of Nonmetropolitan America* analyzed 186 publications written during the previous two decades. Calling rural industrialization a "process of societal realignment with a scope and

magnitude rivaling the emergence of industry in the last century," the authors chose an alarmist title for their book to bring attention to both benefits and dangers. Nonmetro industrialization was a third major form of development to be distinguished from the original "industrial revolution" and the "modernization of traditional economies" because it involved the spread of institutions within an already integrated national state. Given this imposing definition, it is not surprising that the field attracted more attention during the 1970's.

Many of the findings of *Industrial Invasion* derive from the fact that its authors were studying the far-reaching impacts of large institutions on small communities that lack the ability to fully absorb those impacts. Known as "leakage," this phenomenon was first identified in 1965. Thus, branch plants in rural communities may not benefit the poor and unemployed because they bring employees with them, hire more skilled immigrants, or stimulate long commuting from other communities. Also, because a branch plant has many economic linkages outside the local community, its activities create a much smaller multiplier effect than its urban counterparts. As a consequence, wages, per capita incomes, and fiscal benefits did not seem to rise to the extent previously assumed. In general, *Industrial Invasion* was more cautious in its evaluation of rural industrialization than many previous efforts, although it did strongly recommend that neighboring communities work together to mitigate the effects of leakage and low multipliers.

In other publications of the 1970's, authors looked for evidence that rural America was attracting more high-wage jobs, that funda-

mental changes in transportation and communication technologies were making it less likely that only low-skill and low-wage jobs would be filtered down to rural areas, or that service industries were becoming more important.

Thomas Till's 1981 contribution to *Nonmetropolitan America in Transition* summarized the state of knowledge at the end of the "rural renaissance" decade. According to Till, much of the growth in rural industry in the South during the 1960's and in the rest of the country in the early 1970's occurred in high-wage, fast-growing industries. He was also more optimistic than Summers about the local effects of manufacturing operations, stating that the poor and unemployed climb out of poverty "through the multiple-earner, multiple-job process, even if each job by itself pays low wages," that the "majority of employment goes to local workers," and that as many as one half of the immigrants are "returnees to the area often bringing back the important human capital skills of education and job-training that were lost by their migration." Pointing to the job-creating potential of small companies, Till recommended that, instead of enticing branch plants, rural areas should encourage new companies or the expansion of existing ones, an idea that was to become more common in following years. Finally, he wondered about the future of nonmetro employment if more rural manufacturers transferred their operations to lesser developed countries. This fear began to appear in the literature in the late 1970's and soon would pervade it.

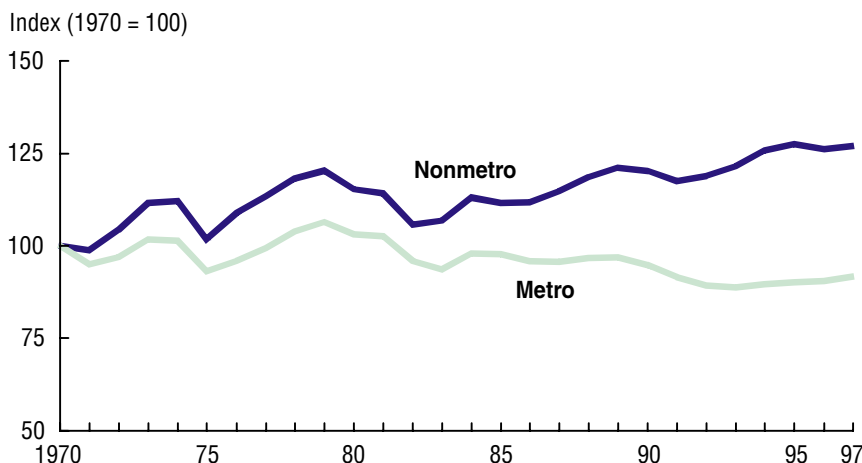
The 1980's and Beyond

By the end of the 1970's, four decades of industrial deconcentra-

Figure 1

Manufacturing employment, metro and nonmetro counties, 1970-97

After falling in the early 1980's, nonmetro manufacturing employment has turned around in the 1990's



Note: Based on 1983 metro-nonmetro definition.

Source: ERS analysis of Bureau of Economic Analysis, Regional Economic Information System data.

tion had significantly altered the American economic landscape. In 1947, the “older” (census definition as of 1963) metro areas of the Northeast and Midwest had 62.6 percent of U.S. manufacturing employment, but in 1977, that figure had fallen to 45.5 percent. On the other hand, the share held by continuously nonmetro and new metro areas (counties that had grown from nonmetro to metro status) in the South, Midwest, and West rose from 15.4 percent to 22.4 percent. “Older” metro areas in the West and South also increased their percentage share.

Employment in rural manufacturing peaked in 1974 and then fell with the recession of 1973-75. Full recovery was not attained until the end of the decade (fig. 1). In 1979, manufacturing employed 21.4 million nationwide, of which 6 million worked in nonmetro areas. In 1980-82, during the deepest recessionary period since World War II, manufacturing employment declined to 18.4 million and 4.9 million, respectively.

Rural areas recovered more slowly than the rest of the country so that, by the end of 1987, when national manufacturing employment had risen to 19.3 million, the nonmetro workforce had barely increased to 5 million. In other words, nearly half of the losses in manufacturing employment since 1979 had come from nonmetro areas. Remote and sparsely populated rural counties were hardest hit, reversing the encouraging trend of the 1960's. These figures, combined with the fact that nonmetro areas had an unemployment rate 1.5 percentage points above the national average throughout the 1980's, provoked speculation about a decoupling of urban and rural economies. Moreover, the increasing number of manufacturers moving overseas conjured images of rural America becoming a way station for companies filtering down and then out. Once seen as a treadmill of low-paying jobs, the filtering-down process was perhaps becoming a conveyor belt of jobs to the global economy.

By the early 1990's, rural manufacturing had recovered to its 1979 level amidst an ongoing pattern of industrial dispersal. Nonmetro populations also began to grow again. In 1992, the older metro areas of the Northeast and Midwest had only 36.2 percent of manufacturing employment, while continuously nonmetro and new metro areas of the Midwest, South, and West had 24.8 percent. Remote and sparsely populated rural areas benefited the most from the recovery.

The economic recession of the 1980's was paralleled by a slow-down in scholarly output. No books on rural industry were published during the decade, except for David A. Reed's 1989 monograph, *The Winnowing: Economic Change in Rural America*, which cast a bleak eye on the future of rural industry. Journal articles and papers, however, continued to appear, including an analysis in 1989 of the product cycle and high-tech industries in nonmetro areas by ERS economist James P. Miller.

Using a more extensive and discriminating data set than had previously been employed (the Brookings Institute's U.S. Establishment and Enterprise Microdata), Miller's nationwide analysis covered the years 1976-80. His data showed that new technology firms were less likely to locate in nonmetro areas and, if they did, generated far fewer jobs than urban firms. High-tech firms in the early stages of development were still drawn to urban areas because of “agglomerative” advantages. High-technology establishments in nonmetro areas, however, tended to be routine production affiliates of urban-based corporations. These affiliates hired mostly unskilled, low-wage labor and thus had “about the same impact on the rural economy as the typical low-

Table 1

Nonmetro manufacturing employment by sector and region, 1996
The South remains the region with the most nonmetro jobs

Item	Nonmetro region ¹			
	Northeast	Midwest	South	West
<i>1,000 jobs</i>				
Total employment ²	2,980	9,568	12,970	5,101
Manufacturing employment ²	450	1,634	2,371	412
<i>Percent</i>				
Manufacturing's share of total employment	15.1	17.1	18.3	8.1
Manufacturing sector shares: ³				
Food and tobacco	6.2	13.0	11.7	18.3
Textiles and apparel	9.3	3.4	24.9	2.4
Lumber, furniture, paper, wood products	18.7	12.7	19.1	32.8
Chemicals, petroleum, rubber, plastics	8.8	10.1	10.0	5.8
Metal products, equipment, instruments	42.6	48.6	28.6	25.5
Other manufacturing	14.3	12.2	7.5	15.2
Total	100.0	100.0	100.0	100.0

¹Census regions.

²Source: ERS analysis of Bureau of Economic Analysis, Regional Economic Information System.

³Source: ERS analysis of Claritas, Inc., Enhanced County Business Patterns 1996 data. Sector classifications are groupings of two-digit Standard Industrial Classification (SIC) categories.

wage, routine manufacturing operation that has been attracted to non-metropolitan areas in the past.” Just as agglomeration theory before 1966 discounted the reality of rural manufacturing, so product-cycle theory in the 1980’s seemed to foreclose the possibility that rural areas could ever promote high-wage, high-skill manufacturing. But as rural economies began to rebound in the 1990’s, some writers and analysts began to question the assumption that rural industry would always be stuck on the low-wage track.

David Heenan’s *The New Corporate Frontier: The Big Move to Small Town, USA* (1991) dismisses the economic potential of most

rural areas but sees hope in the growth of “penturbia,” a gentrified vision of towns and small cities scattered across the landscape with the service and lifestyle amenities attractive to new and innovative businesses. His contention that major advances in telecommunications are creating a “footloose economy that permits firms to locate where they want to be, not where the traditional centers of finance dictate they have to be” supports the prospect that the corporate move to small towns can be broadened. Stuart A. Rosenfeld’s *Competitive Manufacturing: New Strategies for Regional Development* (1992) and Amy Glasmeier’s (et al.)

Branch Plants and Rural Development in the Age of Globalization (1995) see this as coming about through greater emphasis on worker training and incentives for new business startup and expansion. Both believe that the strategy of attracting foot-loose branch plants by offering better tax and financial inducements than the next community has come to an end and that rural developers must devise alternative strategies for promoting local economic growth.

In 1996, ERS completed the most extensive national survey of rural manufacturing ever. Like the 1947 survey of southern manufacturing, the ERS survey uncovered an apparent trend not picked up in analyses of aggregate employment data. The 3,909 establishments surveyed in metro and nonmetro locations were “surprisingly similar in their adoption of new technologies, worker skill requirements, use of government programs and technical assistance. . .” The ERS survey, individual case studies, and analyses such as Timothy Wojan’s on the diffusion of management practices in urban and rural areas suggest that the use of aggregate employment data to support product-cycle theory may be masking a significant development. An increasing number of rural manufacturers now rely on various computerized and electronic systems to control virtually all phases of their production, marketing, and distribution. Strictly speaking, these plants are not “high-tech” because they do not employ teams of innovation-driven engineers and research scientists, but they are “new tech” in the way their adoption of technology requires more highly trained and skilled workers than in the past. Product-cycle theory may be obsolete in this environment of “new tech” and better

Table 2

Manufacturing-population ratio by metro and nonmetro region, 1920-97

Manufacturing now accounts for a larger share of jobs in nonmetro areas than in metro areas

Region	1920	1970	1997
<i>Jobs per 100 persons</i>			
Metro counties	11.7	10.6	7.0
Northeast	14.9	12.3	6.7
Midwest	12.7	13.3	9.6
South	6.3	8.2	6.1
West	7.3	7.9	6.3
Nonmetro counties	3.5	8.3	8.3
Northeast	9.4	11.1	7.8
Midwest	3.0	7.6	9.4
South	2.6	8.9	8.9
West	3.8	5.1	4.4

Note: Table shows ratio of manufacturing jobs to total population. The 1993 definition of metro counties was used for each year.

Source: ERS analysis of data from Censuses of Population and Agriculture 1920, and Bureau of Economic Analysis, Regional Economic Information System.

trained workers. Rural enterprises are not in the vanguard of technological change, but their use of technology can provide their employees with better lives than predicted by the assumptions of the product cycle.

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Federal Funds in the Black Belt

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Richard J. Reeder
Faqr S. Bagi

The words “Black Belt” have been used for over 100 years to describe the socioeconomically distressed, crescent-shaped region in the South from Maryland to Louisiana where Blacks make up a relatively high percentage of the local residents. A recent study by Ronald Wimberley and Libby Morris found that the Black Belt has high rates of poverty, unemployment, infant mortality, poor health, and low rates of educational achievement. John Cromartie’s *RCaT* article (1999, Vol. 9, No. 2) noted that the region’s problems stem from its long and difficult adjustment from the slave-based agrarian Southern economy to today’s diverse and highly competitive global economy. Despite improvements in civil rights and economic well-being, the region continues to struggle with problems of inadequate employment opportunities, transportation, education, and other characteristics common to most low-income populations. Many of those who have gained in education and income have left the Black Belt for better opportunities elsewhere. The remaining popula-

The Black Belt region in the South is characterized by high poverty and related economic problems. The region receives above-average Federal funds per capita, mostly due to relatively high funding in metro areas. In nonmetro areas of the Black Belt, Federal funds vary significantly by type of county and program, with some significant mismatches between the level of program need and assistance actually received. Some Federal policies might be considered to address these mismatches and help develop this depressed region.

tion has a high ratio of youths to working population, which strains the region’s limited ability to provide adequate child care, education, and employment opportunities.

Because today’s global economy puts a premium on a highly educated and adaptable labor force, such undereducated, undeveloped regions can be a significant drain on both the regional and the national economy. Federal and State governments spend a large amount of tax revenues on welfare, food stamps, and medical assistance for the poor. The private sector also must pay substantial amounts for training, health, and other needs of the local labor force. Many believe attacking the causes of poverty in depressed regions would be cheaper and more efficient than treating its symptoms.

Policymakers are increasingly emphasizing comprehensive economic development policies for depressed regions. For example, in 1998, Congress created the Denali Commission to focus on rural development in the largely underdeveloped region of Alaska. Congress also reauthorized two important regional economic development programs in 1998: the Economic

Development Administration and the Appalachian Regional Commission. Both programs use targeted assistance and regional planning entities for formulating and implementing economic development policy in distressed areas. Efforts to establish a regional development program for the Mississippi Delta portion of the Black Belt fell short of passage, but the U.S. Department of Agriculture (USDA) is supporting, through existing programs, a Delta Compact to facilitate meaningful development in the region. This follows USDA’s first round of rural Empowerment Zones and Enterprise Communities, many clustered in the Black Belt.

Is the Federal Government doing enough to address problems in the Black Belt? A recent study by Andrew Isserman found that counties in rural Appalachia, with the help of the Appalachian Regional Commission, had performed significantly better than similar counties elsewhere, while counties in the Lower Mississippi Delta (part of the Black Belt) lacked a comparable regional development authority and performed worse than similar counties elsewhere.

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This raises a key question. Is economic development being dampened in the Black Belt because of inadequate Federal funding in the region, either in total Federal funds or in funding for particular types of assistance critical for development? A better understanding of how Federal programs are currently distributed might help to answer this question.

In this article, we use fiscal year 1997 data from the Bureau of the Census to examine the Federal programs that benefit the Black Belt, comparing the Black Belt with the Nation as a whole. Programs examined include human and community resource programs, which are critical for investing in the long-term economy of the region. The focus of our analysis is on Black Belt nonmetro counties because of their generally worse socioeconomic conditions. Their local communities tend to have low tax bases and are less able to provide public services and infrastructure required in a competitive global economy.

We examined different types of nonmetro counties, using the ERS county typologies, to see if the quantity and type of assistance matches the local economic development needs of the type of county examined. In addition, we examined one of the main subregions within the Black Belt—the Mississippi Black Belt, which appears to have generally higher percentages of Blacks and higher levels of distress than other parts of the Black Belt—to assess whether there were significant differences between this more distressed western portion of the Black Belt and the larger Black Belt region. This information should also interest those wishing to establish a regional development commission for the Delta.

Higher Per Capita Funding in Metro Areas Raises Black Belt Above National Average

Federal funds per capita are 14 percent higher in the Black Belt (\$5,954) than in the United States as a whole (\$5,218). Most of this difference is due to the relatively high payments to metro Black Belt counties, which received 17 percent more funds per capita than urban counties nationwide in 1997 (fig. 1). Nonmetro Black Belt counties received only 1 percent more funds, per capita, than the national average for nonmetro counties. To better understand why the metro Black Belt received more funds than the nonmetro Black Belt, we examined Federal funding variations across functional categories.

Federal Funds Vary Significantly by Type of Program

Income security—which includes medical, retirement, disability, public assistance, and unemployment benefits (see “Data Sources and Definitions”)—is the predominant type of Federal assistance, accounting for most Federal funds nationwide (table 1). Given the Black Belt’s relatively high rates of poverty and unemployment, we expected and found that the region received relatively high levels of income security payments, \$3,467 per capita, about \$330 more than the Nation as a whole. Although the highest levels of income security funding per capita were in the nonmetro Black Belt, the metro Black Belt received almost as much from this function.

The nonmetro Black Belt received more than the metro Black Belt from agriculture and natural resources funding, but the amounts involved were relatively small, \$258 per capita for nonmetro and \$19 per capita for metro. In contrast,

the metro Black Belt received substantially more in both community resources and defense and space funds than did the nonmetro Black Belt. Both of these functions are important to local economies because they provide infrastructure and jobs. Defense and space funding was particularly important for the metro Black Belt, accounting for \$1,253 per capita, substantially more than that received in the nonmetro Black Belt or by metro areas nationwide.

Black Belt nonmetro counties . . . tend to have low tax bases and are less able to provide public services and infrastructure required in a competitive global economy.

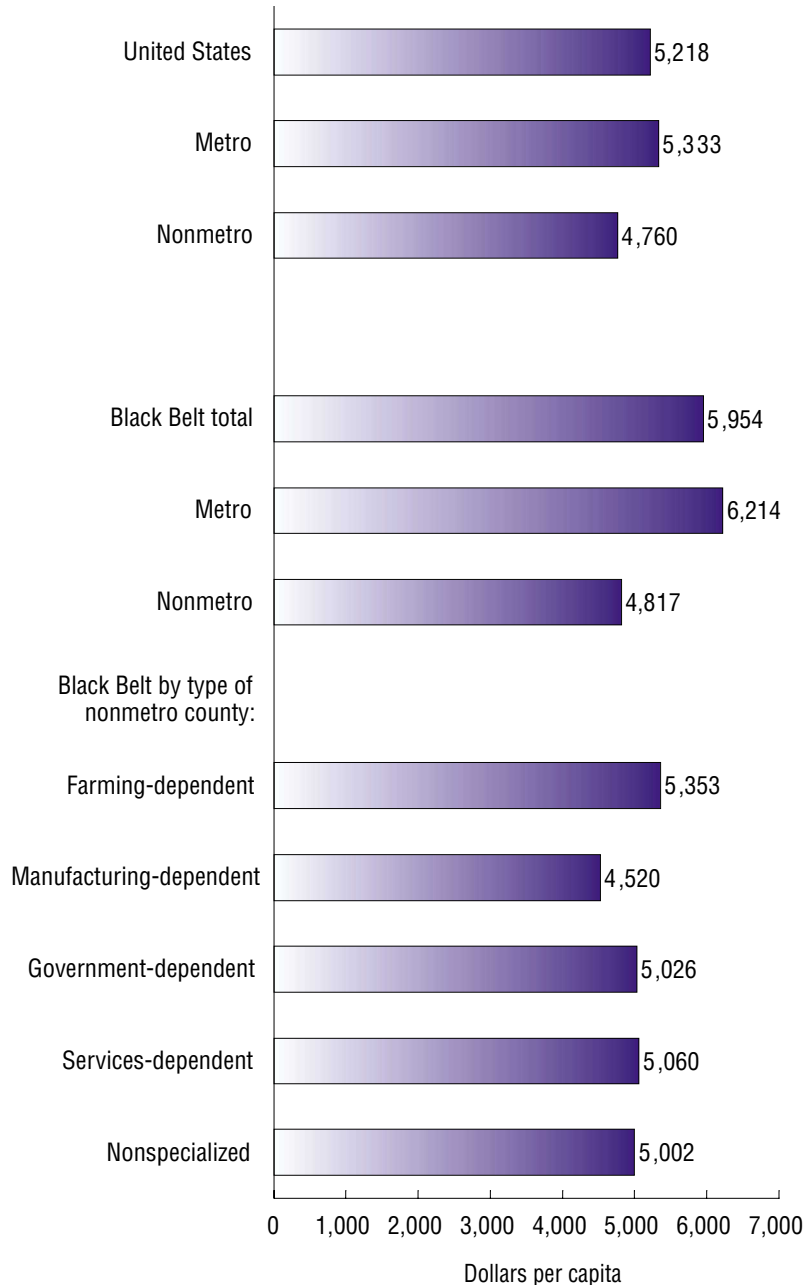
National functions—including criminal justice, law enforcement, energy, higher education, and research—also accounted for a large amount of funding in the Black Belt; however, the amounts are less than those received nationwide, perhaps indicating lesser congressional pull in placing Federal projects and installations in the region. The metro Black Belt received twice as much funding, per capita, as did the nonmetro Black Belt. But metro facilities may provide employment and income for commuters from surrounding nonmetro areas, so the metro-nonmetro gap in benefits received may be smaller than this. For the same reason, the metro-nonmetro gap in payments for defense and space and community resources may overstate the difference in benefits.

Nonmetro Black Belt counties surpassed all other counties in human resources funding, which covers education and training, child care and nutrition (but not food stamps) needed to help working

Figure 1

Per capita Federal funds by county type, fiscal year 1997

Funding in the Black Belt exceeded the national average in per capita dollars and varied greatly by type of nonmetro county



Source: Calculated by ERS using Federal funds data from the Bureau of the Census.

mothers, and health and social service programs. However, we did not have data for the local distribution of some of the largest human resource programs (such as the Job Training Partnership Act and the biggest child care and social services block grant programs), limiting the usefulness of these findings.

Farming and Poverty Counties Get More Funding Than Manufacturing and Commuting Counties

Among the region's nonmetro county types (see "County Typology" box for an explanation of county types), farming-dependent counties received the highest per capita Federal funding (\$5,353). Most of the funding advantage for the 34 farming-dependent counties comes from their relatively high Federal payments for income security (\$3,694) and agriculture and natural resources functions (\$810). Farming counties, like other nonmetro Black Belt counties, received relatively little funding for community resources (\$308), which is important for job creation to help diversify farming economies.

Manufacturing counties—the largest economic category of nonmetro Black Belt counties—received the smallest amount of Federal funds, per capita, in the Black Belt (\$4,520). This disadvantage occurred in all functions except for income security (\$3,521 per capita), and the income security payments were still smaller than the \$3,572 average for nonmetro Black Belt counties. Manufacturing counties received \$300 per capita for community resources, well below the metro average but equal to the nonmetro average in the Black Belt. The most significant disadvantage for these counties was in human resources, a type of assistance that is critical if these counties are to

Table 1

Per capita Federal funds by function, fiscal year 1997*The funding difference between metro and nonmetro Black Belt counties is large*

Item	All Federal funds	Agriculture and natural resources	Community resources	Defense and space	Human resources	Income security	National functions
<i>Dollars per person</i>							
United States	5,218	59	508	645	101	3,138	767
Metro	5,333	18	549	734	98	3,089	845
Nonmetro	4,760	217	349	294	113	3,329	458
Black Belt	5,954	118	546	910	149	3,467	764
Metro (43) ¹	6,214	19	668	1,253	138	3,424	712
Nonmetro (198)	4,817	258	300	189	173	3,572	325
Mississippi Delta Black Belt (49)	5,448	211	235	400	194	3,551	491
By county economic type:							
Farming-dependent (34)	5,353	810	308	132	206	3,694	203
Manufacturing-dependent (85)	4,520	107	300	183	146	3,521	263
Government-dependent (23)	5,026	118	377	499	171	3,237	626
Services-dependent (11)	5,060	208	295	459	181	3,606	311
Nonspecialized (53)	5,002	338	267	132	206	3,718	341
By county policy type:							
Commuting (63)	4,190	124	296	98	184	3,313	176
Persistent poverty (162)	4,912	290	304	193	181	3,638	306

Note: Individual figures may not sum to total because of rounding.

There were only two counties in the Black Belt classified as mining-dependent, only two as retirement-destination, and four as Federal lands, so these were excluded. Transfer-dependent counties were also excluded because of overlap with the persistent-poverty counties.

¹Number of counties within each county typology are shown in parentheses.

Source: Calculated by ERS using Federal funds data from the Bureau of the Census.

Federal Program Categories

In table 1, we used ERS's six broad function categories for Federal programs:

- Agriculture and natural resources (agricultural assistance, agricultural research and services, forest and land management, water and recreation resources).
- Community resources (business assistance, community facilities, community and regional development, environmental protection, housing, Native American programs, and transportation).
- Defense and space (aeronautics and space, defense contracts, defense payroll and administration).
- Human resources (elementary and secondary education, food and nutrition, health services, social services, training and employment).
- Income security (medical and hospital benefits, public assistance and unemployment compensation, retirement and disability—includes Social Security).
- National functions (criminal justice and law enforcement, energy, higher education and research, all other programs excluding insurance).

modernize their manufacturing base and compete in the global economy.

ERS's policy typology reveals that nonmetro persistent-poverty counties received the highest level of Federal assistance (\$4,912) among policy types, benefiting mainly from high income security payments and agricultural assistance. However, these counties got significantly less overall funding than metro counties (\$6,214) and only slightly more than the Black Belt nonmetro average in community and human resources funding.

The policy type that received the least assistance (\$4,190) was nonmetro commuting counties. These counties are adjacent to metro counties, generally enjoy higher median family incomes than the nonmetro average, and have less need for income security programs.

Mississippi Black Belt Receives More Total Funding Than Rest of Black Belt, but Less in Community Resources

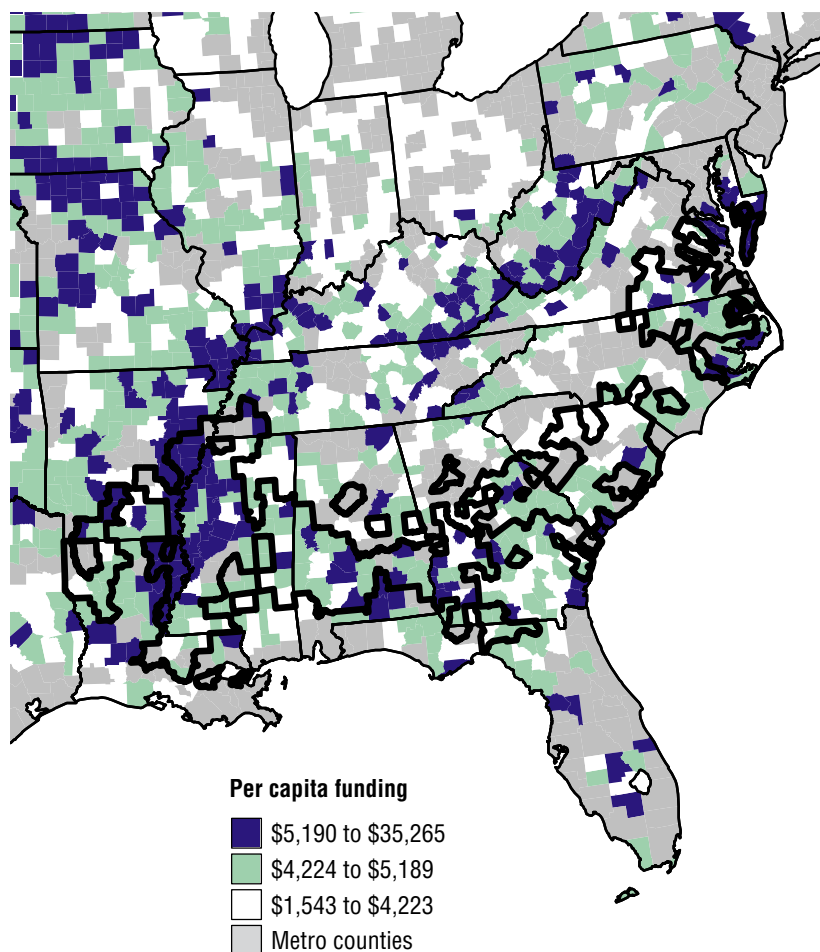
The geographic pattern of per capita Federal funding among southern nonmetro areas is shown in figure 2, with the Black Belt region outlined. The nonmetro counties that received high amounts of Federal funds tend to be located in the Mississippi Delta and the Southern Coastal Plains. The Mississippi Delta area and practically all of the Black Belt counties in the State of Mississippi are poverty counties (fig. 3). Most of these counties were shown in figure 2 to have relatively high per capita funding.

Although the nonmetro Mississippi portion of the Black Belt received substantially higher amounts of Federal funds than other nonmetro parts of the Black Belt, it still received less than metro areas in the Black Belt. The Mississippi

Figure 2

Per capita Federal funds, fiscal year 1997

Federal funds are mostly concentrated in the Mississippi Delta and Southern Coastal Plains



Note: Black Belt counties are outlined in black.

Source: Calculated by ERS using Federal funds data from the Bureau of the Census.

Black Belt received more than other nonmetro Black Belt areas because it had more funding from defense and space and from national functions. Relatively small amounts came from community resource programs that are important for economic diversification and creating economic opportunity.

Conclusions and Policy Implications

The Federal Government has a large stake in the Black Belt, where

per capita Federal funding exceeds the national average. However, much of the money goes to metro areas. While receiving as much in Federal funds as other nonmetro counties, nonmetro Black Belt counties received substantially less funding than their metro counterparts. In addition, the nonmetro Black Belt counties also got less than nonmetro areas nationwide from community resource assistance, which is used for job generation and other development functions.

Figure 3

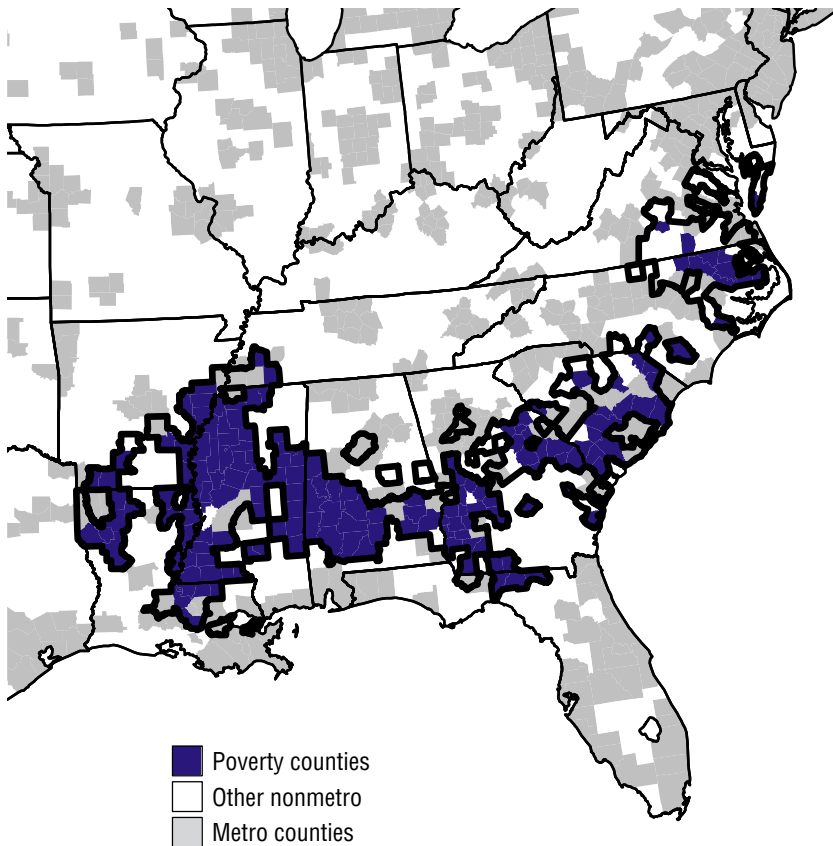
Black Belt poverty counties, fiscal year 1997

The Black Belt is dominated by poverty counties

In some parts of the Black Belt, Federal funding in key functions is falling short of what is probably needed. For example, Black Belt farming counties, which especially need economic diversification, got little more than the region's non-metro average (substantially below the national nonmetro average) in community resources funding. Meanwhile, Black Belt nonmetro manufacturing counties got relatively little in human resources funding, though it is important for retraining the labor force to meet the manufacturing needs of the 21st century. And while poverty counties in the Black Belt got substantial funding from income security programs, they got little more than average for the region from community and human resources assistance, for which they arguably have much need.

The nonmetro Mississippi Black Belt received more Federal funds than the rest of the nonmetro Black Belt, due to greater funding from defense and space and from other national functions. This subregion's economy, thus, particularly depends on the continuation of military bases and other Federal installations in the region. The subregion also got more human resources funding than other parts of the Black Belt. However, this high-poverty area received the lowest level of community resources of any place in our analysis.

Our finding that metro areas are getting more of Federal funds than nonmetro areas in the Black Belt may reflect a "growth center" approach taken by some Federal and State development officials. However, this pattern may also be accidental, a result of the location of military bases and related industries in metro areas, since these places have attracted more defense and



Note: Black Belt counties are outlined in black.

Source: Economic Research Service.

space funding to the metro Black Belt than to metro areas nationwide. Another explanation may be that nonmetro Black Belt communities have less local government expertise and political pull needed to apply for and attract government grants and facilities into the area. In nonmetro areas dependent on low-skilled labor, such as some manufacturing counties, private industry may dissuade local officials from pursuing substantial human resources assistance, such as education and training, in order to retain a surplus of unskilled labor in the area. In any event, the result of such a pattern of Federal funding is

to create most of the new jobs in metro areas, forcing many nonmetro Black Belt residents to migrate or commute if they are to find a job.

Policymakers might consider more funding of job creation in the nonmetro Black Belt, especially farming counties and the high-poverty Mississippi Black Belt, where the need for economic diversity is great. Alternatively, improvements in roads and public transportation might enable the population in nonmetro Black Belt communities to commute to jobs in metro areas. Policymakers might also consider improving human resource

County Typology

County economic types (mutually exclusive, each county falls into only one economic type):

Farming-dependent—Farming contributed a weighted annual average of 20 percent or more of total labor and proprietor income over 1987-89.

Mining-dependent—Mining contributed a weighted annual average of 15 percent or more of total labor and proprietor income over 1987-89.

Manufacturing-dependent—Manufacturing contributed a weighted annual average of 30 percent or more of total labor and proprietor income over 1987-89.

Government-dependent—Federal, State, and local government activities contributed a weighted annual average of 25 percent or more of total labor and proprietor income over 1987-89.

Service-dependent—Service activities (private and personal services, agricultural services, wholesale and retail trade, finance and insurance, real estate, transportation, and public utilities) contributed a weighted annual average of 50 percent or more of total labor and proprietor income over 1987-89.

Nonspecialized—Counties not classified as a specialized economic type over 1987-89.

County policy types (overlapping, a county may fall into any number of these types):

Retirement-destination—The population age 60 and older in 1990 increased by 15 percent or more during 1980-90 through immigration of people.

Federal lands—Federally owned lands made up 30 percent or more of a county's land in 1987.

Commuting—Workers age 16 and over commuting to jobs outside their county of residence were 40 percent or more of all the county's workers in 1990.

Persistent-poverty—Persons with poverty-level income in the preceding year were 20 percent or more of total population in each of 4 years: 1960, 1970, 1980, and 1990.

Transfer-dependent—Income from transfer payments contributed a weighted annual average of 25 percent or more of total personal income over 1987-89.

Black Belt counties—Following John Cromartie's approach, "Black counties" are defined as those where Blacks made up one-third or more of county population. However, we excluded Black counties not located in the South (there were 8 such counties), resulting in a total of 240 Black Belt counties (42 metro, 198 nonmetro) for our analysis.

Mississippi Black Belt county—Any nonmetro Mississippi county where Black population accounts for one-third or more of total county population.

programs in nonmetro manufacturing counties in the Black Belt, which currently receive relatively little of this assistance despite their apparent need to improve their labor

force. Other options involve institutional change, such as the creation of regional development institutions similar to the Appalachian Regional Commission to help nonmetro Black

Belt communities plan and implement local economic development policy.

Data Sources and Definitions

Federal funds data. We used the Consolidated Federal Funds Reports data from the U.S. Department of Commerce, Bureau of the Census. We refer to these data as the Federal funds data. Census collects these data annually from each Federal department or agency. We aggregated the data to the county, State, region, and national level for each program for fiscal year 1997. (Unless otherwise specified, references to years are fiscal years.) The census data for 1997 covered 1,256 individual programs, but not all of these programs had reliable data at the county level.

Each program has individual characteristics that affect the way the data show geographic patterns. For example, funds for many programs go directly to State capitals or regional centers that redistribute the money or program benefits to surrounding areas. Examples include block grant programs and some procurement programs that involve a substantial degree of subcontracting. Census screens the data to identify such programs, and we have added our own screen, which separates out those programs that allocate 25 percent or more of their funds to State capitals. We ended up with 816 programs that we believe are fairly accurate to the county level for 1997. These 816 programs accounted for 89 percent of the total Federal funds reported by Census. To measure the level of Federal funding in each county, we computed Federal funds received in the county divided by the county population (Federal funds per capita).

The benefits of Federal programs do not all go to the places that receive funds. For example, money spent on national parks benefits all visitors and not just those who live near the parks. Such spillover benefits are present in almost all Federal programs and are not reflected in the Federal funds data. In addition, different programs affect communities in different ways and have different multiplier effects on local income, employment, and community well-being. Thus, even if the reported funding dispersion is an accurate depiction of where the funds are spent, the data may still understate program effects. Federal funds data may represent either actual program expenditures or obligations, depending on the form of the data provided to Census.

In screening out programs with potentially inaccurate county data, we found that Lafore County, MS, received an unusually large amount of USDA commodity loans. We dealt with this potential outlier problem by retaining the county in the study, interpolating for this one program by crediting Lafore County with the average amount of assistance that went to similar Mississippi counties. This lowered slightly the totals for Federal funds in this article compared with those presented in some other ERS research.

Notwithstanding the excluded funds and other data limitations, we believe this analysis provides a reasonable basis for assessing the importance of Federal funds for the region.

Population data. Per capita funding amounts were estimated using 1997 county population estimates from the Bureau of the Census.

Metro and nonmetro areas. 1993 Metropolitan Statistical Areas (MSA's), as defined by the Office of Management and Budget, include core counties containing a city or urbanized area of 50,000 or more people plus contiguous counties that are economically integrated with the core county or counties. Nonmetro areas are counties outside MSA's.

For Further Reading . . .

John B. Cromartie, "Minority Counties are Geographically Clustered," *Rural Conditions and Trends*, Vol. 9, No. 2, Feb. 1999, p. 19.

Andrew Isserman, "Wash Our Hands, Tie Their Hands, or Shake Their Hands? The Federal Role in Rural Economic Development," Regional Research Institute, West Virginia University, Morgantown, Feb. 1996.

Richard Reeder, Faqir Bagi, and Samuel Calhoun, "Who's Vulnerable to Federal Budget Cuts?" *Rural Development Perspectives*, Vol. 11, No. 2, Feb. 1996, pp. 36-42.

Ronald C. Wimberley and Libby V. Morris, *The Southern Black Belt: A National Perspective*, TVA Rural Studies, Lexington: University of Kentucky, 1997.

Child Poverty in Nonmetro Areas in the 1990's

Carolyn C. Rogers
Elizabeth Dagata

Child poverty in the 1990's remains high, especially in nonmetro areas. In 1997, 14.1 million children under 18 were poor, representing 40 percent of the poverty population. Poor children are more likely to live in mother-only families, to be Black, and to have parents who have lower education and who are not employed. This article examines the poverty and welfare reciprocity status of children to better inform policymakers about the potential effects of welfare reform efforts.

An understanding of the economic well-being of children is important for public policy and local community planning to improve the condition of children and to help them attain their potential. In 1997, 14.1 million children under 18 were poor, representing 40 percent of the poverty population. The cost of child poverty to the Nation is high, and may affect the future productivity and competitiveness of the labor market. In light of recent changes in the welfare system, it becomes critical to identify those in need of assistance who may fall through the safety net. The current state of children's well-being may serve as a benchmark to evaluate the potential effects of welfare reform efforts and suggest alternative policies for child well-being.

Poverty rates for children in rural areas have historically been higher than rates for children in urban areas; 22 percent of nonmetro children were poor in 1997 compared with 19 percent of metro

children. Trends in child poverty and welfare reciprocity in the 1990's will show how the number of children in need of assistance has fluctuated. This article examines the poverty status, welfare reciprocity status, and selected characteristics of children under age 18 by metro-nonmetro residence to identify children in need of assistance. An assessment of such children will help to target assistance programs to this population and to better inform policymakers as to whether children are better or worse off under the newly legislated programs. The economic well-being of children in nonmetro America is an important issue for local community planning and rural development policies, since families are the building blocks of the community.

Child Poverty Remains High in the 1990's, Especially in Nonmetro Areas

The size of the child poverty and welfare populations is a good measure of the economic status of children and indicates to policymakers where improvements are needed. Poverty rates for children in non-

metro areas have historically been higher than for children in metro areas. In the early 1970's, the economic status of nonmetro children improved, as poverty rates for children by metro-nonmetro residence began to converge. In the late 1970's, however, the residential gap in poverty widened, and poverty rates increased in both metro and nonmetro areas. The recessions of the early 1980's pushed poverty rates up, and the slower economic recovery in nonmetro areas delayed improvement in poverty conditions. After 1983, metro poverty rates declined somewhat, but nonmetro rates remained high. Nonmetro child poverty has been consistently higher than that among metro children since the 1970's. Many factors contribute to high child poverty rates, including the reduced earnings of mothers as they work fewer hours to accommodate the presence of children, the assumption of greater household needs when children are present, and the explicit raising of the poverty threshold as family size increases, with fewer per-child resources available in larger families.

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During the 1990's, the non-metro child poverty rate continued to exceed the metro rate. In the early 1990's, the poverty rates for children in both metro and non-metro areas rose slightly, peaking in 1993 at 22 percent in metro areas and 24 percent in nonmetro areas (fig. 1). Beginning in 1994, the metro child poverty rate dropped slightly, declining to 19 percent in 1997. During this time period, the nonmetro child poverty rate remained stable, ending up at 22 percent in 1997.

Trends in the receipt of Aid to Families with Dependent Children (AFDC) benefits highlight the child population that depends on this form of assistance and identify a substantial proportion of children who may fall through the safety net due to recent changes in the welfare system. Temporary Assistance to Needy Families (TANF) was introduced in 1997, as AFDC was phased out State by State. Despite slightly higher poverty rates, non-metro children had slightly lower participation rates in the AFDC pro-

gram than metro children during the 1990's. Some of the residential difference in participation rates reflects the greater tendency of non-metro poor children to live in two-parent families where at least one parent is employed. During the 1990's, participation rates for non-metro children declined from 10 percent to 7 percent, while participation rates for metro children declined from 12 percent to 8 percent. It appears that a robust economy and the implementation of State waivers in the mid-1990's are among the factors affecting the decline in AFDC participation (Ziliak, Figlio, Davis, and Connolly).

States Given Greater Role in New Welfare Programs

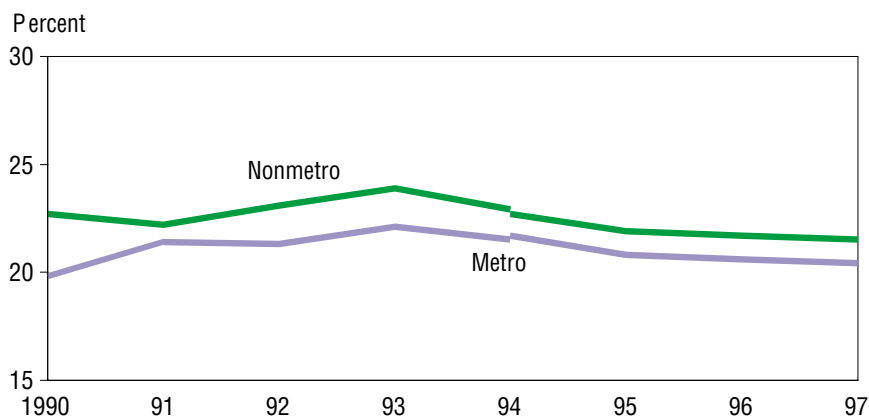
AFDC was established as part of the Social Security Act of 1935 to serve single parents with children under 18, and was the main cash assistance program for families with children before welfare reform. The Children's Bureau was given funding to provide, through the States, an array of services to children and

their families. Pressure to reform AFDC and concern over the large number of children in poverty in the late 1980's led to the Family Support Act of 1988, a major welfare reform act that was designed to help welfare families become self-sufficient. With the signing of the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA), the welfare delivery system became primarily State-based.

PRWORA eliminates AFDC's open-ended entitlement and creates a block grant for States to provide time-limited cash assistance for needy families, with work requirements for most recipients. The law also makes far-reaching changes to child care, the Child Support Enforcement Program, benefits for legal immigrants, the Food Stamp program, and Supplemental Security Income (SSI) for children. Under Title 1 of PRWORA, individual entitlement to assistance for those who qualify was eliminated, AFDC was replaced by TANF, and block grants, time limits, work requirements, waivers, and maintenance of (State) effort were established.

Under the Omnibus Budget Reconciliation Act of 1981, States first began to request waivers (requests to implement changes) of Federal AFDC requirements. Initially, waivers were primarily focused on welfare-to-work strategies. By 1990, States began to use waivers to address such issues as labor supply, family formation and stability, fertility decisions, and parenting skills. State maintenance of effort requires that States, in order to receive their full funding allocation, must demonstrate that they are spending on TANF-related activities 80 percent of the non-Federal funds they spent in fiscal year 1994 on AFDC and related programs.

Figure 1
Poverty rates for children under 18 years old by residence, 1990-97
Both metro and nonmetro child poverty rates peaked in 1993



Source: Calculated by ERS using data from the March Supplement of the Current Population Survey 1991-98.
Note: Change in the metro status of some counties caused a discontinuity in the 1994 data.

PRWORA listed the purpose of the TANF block grant as follows: (1) to provide assistance to needy families so their children can be cared for in their homes or in the homes of relatives; (2) to end the dependency of needy parents on government benefits by promoting job preparation, work, and marriage; (3) to prevent and reduce the incidence of out-of-wedlock pregnancies and to establish annual numerical goals for preventing and reducing the incidence of these pregnancies; and (4) to encourage the formation and maintenance of two-parent families. The overall statement of purpose (of TANF) is "to increase the flexibility of states in operating a program." Funds may also be used for goals pursued previously under AFDC for cash grants, administration, emergency assistance, child care, and the Job Opportunities and Basic Skills (JOBS) program.

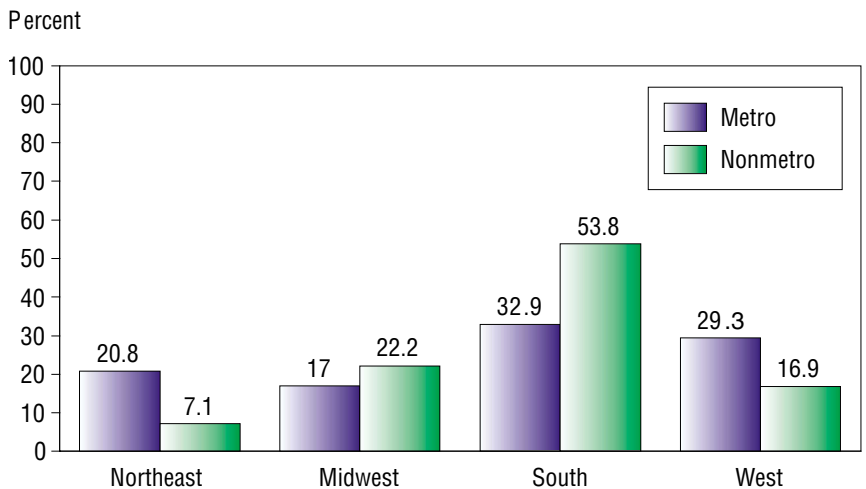
The States set eligibility requirements under TANF. Block grants offer the States a wide range of choices and great flexibility in making decisions that will, in effect, determine the adequacy of the funding. For example, States will need to determine whether to invest in child care quality. Child care assistance will be needed for several years, not just to facilitate the movement from welfare to work, but to help maintain employment. Many of the State welfare waivers included transitional child care for 2 years or longer; however, the legislation does not require even the 1-year transitional child care benefit mandated in the 1988 Family Support Act. A critical decision for States is whether they will fund transitional child care as people find work.

Another critical decision for States concerns the extent of coverage of the working poor, which is

Figure 2

Poor children by region and residence, 1997

Nonmetro poor children are concentrated in the South



Source: Calculated by ERS using the 1998 March Current Population Survey (CPS) data file.

essential if States are to avoid a crisis down the road. A 5-year time limit is placed on receipt of cash assistance under TANF, and almost all adults are required to work within 2 years of initial enrollment in TANF. Work can be unsubsidized or subsidized employment, on-the-job training, work experience, community service, 12 months of vocational training, or child care provided to individuals participating in community service. Exceptions are allowed for 6 weeks of job search time, parents with a child under age 6 who cannot find child care, and single parents with children under age 1. States can specify a shorter period (families cannot spend more than 5 cumulative years on TANF), and exempt up to 20 percent of the caseload from the time limit. After the time limit is exceeded, States can elect to provide noncash assistance and vouchers to families. With wide variance between State programs, the Federal Government still monitors and oversees State

actions in their welfare reform agendas.

Black Children Are More Likely To Be Poor

In addition to the 22 percent of nonmetro children under 18 who were poor in 1997, nearly 14 percent were classified as near-poor (in families with total incomes 100-149 percent of the official poverty level), compared with 10 percent of metro children. The financial standing of the near-poor is precarious at best, with family incomes only marginally above the poverty line. With changes in welfare, this group is extremely vulnerable to losing out on various governmental assistance programs.

Poverty rates for children under 6 are higher than the rates for all children under 18. Nonmetro children under 6 had a poverty rate of nearly 27 percent, and metro children under 6 had a rate of 21 percent. Under welfare reform, States are required to keep the poverty

rate of children under 6 at 5 percent or below, and if it goes higher and can be attributed to TANF, States must amend their TANF plan.

States determine where to set eligibility requirements, benefit levels, and duration of assistance. About the same share of young children under 6 years old are poor as are living in families receiving TANF benefits. Thirty-seven percent of the poor child population in both metro and nonmetro areas is under 6 years old. The share of young children living in families receiving AFDC was similar to that of poor children.

Poverty is especially a problem for the South, which has a higher percentage of children in poverty than the rest of the country. Nonmetro poor children are concentrated in the South, while metro poor children are much more evenly spread among the four regions (fig. 2). The poverty rate for nonmetro children living in the South was 54 percent, compared with only 33 percent for metro children. The

share of AFDC children living in the South was similar to the share of poor children.

Family structure has an enormous impact on the well-being of children. Children in mother-only families are more likely than children in two-parent families to live in poverty. These families are at an economic disadvantage because there is only one parent to generate income and even that effort is often limited by difficulties in obtaining child care. Fifty-two percent of nonmetro children and 46 percent of metro children who lived in mother-only families were poor. However, nonmetro poor children were less likely than metro poor children to live in mother-only families. Fifty-seven percent of nonmetro poor children lived in mother-only families, compared with 62 percent of metro children. Children living in families receiving AFDC benefits were more likely than poor children to live in mother-only families. Over three-fourths of AFDC children lived in mother-only families.

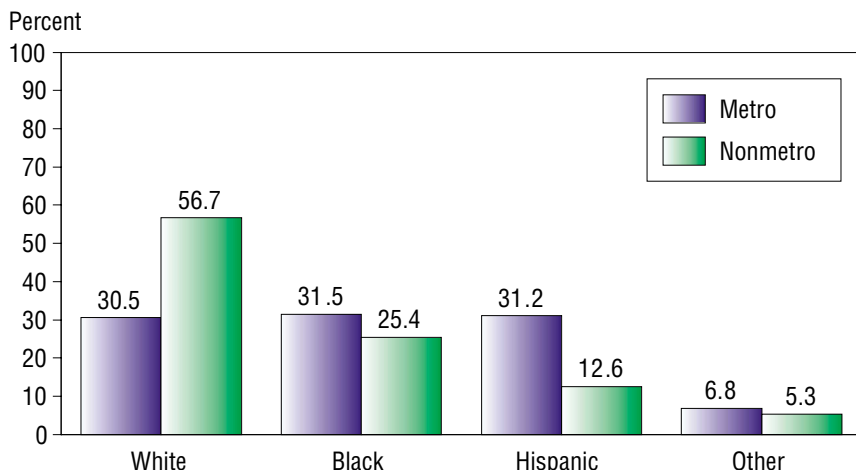
Race and ethnicity affect a child's poverty status; 43 percent of nonmetro Black children were poor, compared with 36 percent of White children. Since a higher proportion of Blacks reside in metro areas than in nonmetro areas, the gap between metro and nonmetro poverty rates would most likely be even larger without the difference in racial composition. Nonmetro Black children are more likely to face adverse economic conditions, especially those in larger families, in families with younger children, in mother-only families, and in families with no earners. Despite their higher poverty rate, nonmetro Black children do not make up the majority of nonmetro poor children (fig. 3). About 57 percent of nonmetro poor children were White. Black children comprised one-quarter of nonmetro poor children and 32 percent of metro poor children.

Hispanic children were more likely to reside in metro areas than in nonmetro areas and had higher metro poverty rates (31 percent) than nonmetro rates (13 percent).

Figure 3

Poor children by race and residence, 1997

Metro child poverty is evenly distributed across the races but nonmetro child poverty consists mostly of White children



Source: Calculated by ERS using the 1998 March Current Population Survey (CPS) data file.

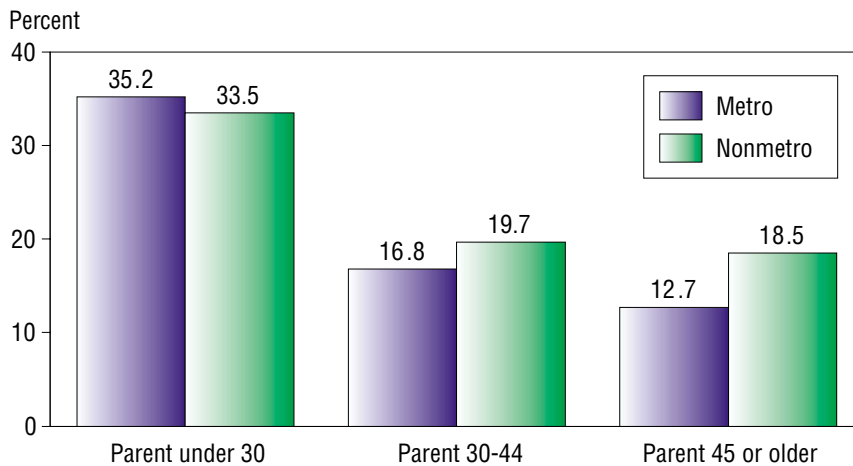
Children With Younger and Less-Educated Parents Are More Likely To Be Poor

Poverty rates are highest for children whose parents are under age 30. In 1997, the poverty rate for nonmetro children with a parent under age 30 was 34 percent, compared with 20 percent for those with a parent age 30-44 (fig. 4). Poverty rates are lowest among children with parents age 45 and older, a period when most adults are established in their careers and in their peak earning years. Metro and nonmetro areas had a similar pattern of poverty rates by parental age, with higher nonmetro rates at age 30 and older.

Figure 4

Poverty rates for children under 18 by parental age and residence, 1997

Higher poverty is found among children with the youngest parents



Source: Calculated by ERS using the 1998 March Current Population Survey (CPS) data file.

Children in families with a parent who did not complete high school were worse off economically than children with more educated parents. Poverty rates for nonmetro children whose parents had not completed high school were 46 percent in 1997, compared with 11 percent for nonmetro children whose parents had completed at least 1 year of college (fig. 5). These comparisons were similar in metro areas. Parents of metro children are better educated than their nonmetro counterparts, with 54 percent of metro parents having completed at least 1 year of college, compared with 40 percent of nonmetro parents. Parental age and educational attainment interact, as younger parents are more likely to have interrupted their high school or college educations due to early childbearing. Educational attainment influences employment prospects, with highly educated parents being more marketable in the labor force and better able than their less educated counterparts to provide an economically secure environment for their children.

Employment Status of Parents Affects Children's Poverty

Children of employed parents have a clear financial advantage. Poverty rates are highest for children whose parents are unemployed or not in the labor force. While 14 percent of nonmetro chil-

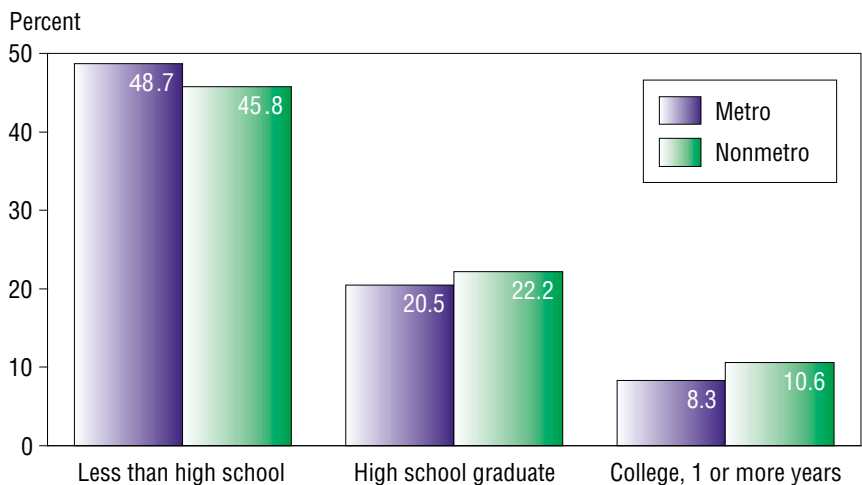
dren with employed parents were poor, over half of nonmetro children whose parents were not in the labor force were poor (fig. 6). With higher unemployment and underemployment in nonmetro areas, many workers and their families may experience periods of poverty. Being temporarily poor in nonmetro areas often results from work-related events, such as the loss of a job or lack of local employment opportunities. The poverty rate for nonmetro children whose parents were without earnings in 1997 was 57 percent, compared with 16 percent for nonmetro children whose parents had earnings (fig. 7).

Nationally, 20 percent of children were poor in 1997 and 7 percent received AFDC benefits. Children in nonmetro areas have had perennially higher poverty rates and lower AFDC reciprocity rates than their metro counterparts. Poor children and those on welfare differ in terms of demographic and socioeconomic characteristics from

Figure 5

Poverty rates for children under 18 by parental education and residence, 1997

Almost half of all children whose parents did not complete high school are poor

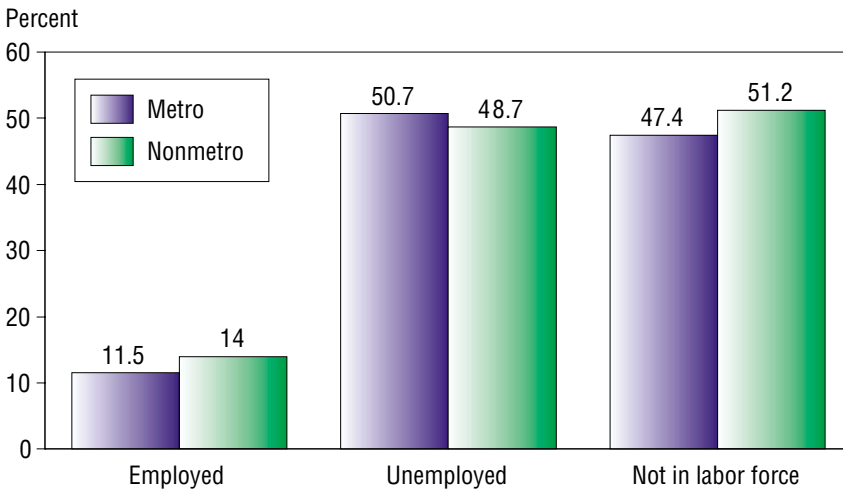


Source: Calculated by ERS using the 1998 March Current Population Survey (CPS) data file.

Figure 6

Poverty rates for children under 18 by parental employment status and residence, 1997

Nonmetro poor children are likely to have parents who are unemployed or not in the labor force



Source: Calculated by ERS using the 1998 March Current Population Survey (CPS) data file.

the rest of the child population. Compared with all children under 18, poor children and welfare children are more likely to reside in the nonmetro South, to be Black, and to have parents under age 30 who have less than a high school education and are not in the labor force (table 1). Nevertheless, many poor children are part of the working poor population. Among nonmetro poor children, 49 percent had an employed parent, as did 28 percent of children who were poor and on welfare. This compares with 78 percent of all nonmetro children.

The most needy children (poor and on welfare) were more likely to have younger and less educated parents. Whereas 20 percent of all nonmetro children had a parent under age 30, 30 percent of poor children, 33 percent of children on welfare, and 32 percent of poor children on welfare had younger parents. About 20 percent of all nonmetro children had a parent who had not completed high school,

compared with 41 percent of poor children. Poor children and children on welfare share basic similarities in their social and demographic characteristics and in the characteristics

of their parents. Because their parents tend to be younger and less educated, they are also more likely to be earning a lower wage. Nonmetro children are at an even greater risk of being poor since their parents tend to be less educated and in lower paying jobs.

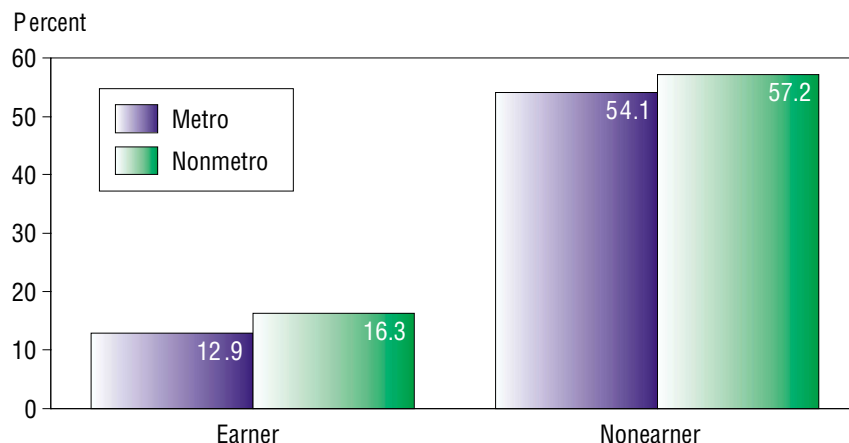
Almost Half of Poor Children Were Severely Poor

In addition to poverty rates, the depth of poverty yields insight into the economic well-being of children. Almost one-half of poor children, regardless of residence, lived in severe poverty, or with family incomes less than 50 percent of the poverty level. About 48 percent of nonmetro poor children under 6 years old lived in severe poverty, compared with 40 percent of the poor age 6 to 15. The share of metro children age 6 to 15 living in severe poverty was slightly smaller than the share of metro young children in similar circumstances. The proportion of children 15 and older

Figure 7

Poverty rates for children under 18 by parental earner status and residence, 1997

The poverty rate of nonmetro children whose parents had no earnings was three and a half times that of children whose parents had earnings



Source: Calculated by ERS using the 1998 March Current Population Survey (CPS) data file.

Table 1

Demographic/socioeconomic profile of children under 18 by poverty, welfare status, and residence, 1998*Poor children and welfare children tend to have younger, less educated parents*

Item	All children		Poor children		AFDC children		Poor and AFDC children	
	Metro	Non-metro	Metro	Non-metro	Metro	Non-metro	Metro	Non-metro
<i>Number</i>								
Total	56,777	14,051	10,769	3,125	3,849	873	3,240	758
<i>Percent</i>								
Region:								
South	32.1	44.0	32.9	53.8	23.5	49.6	24.0	50.5
Midwest	22.2	30.6	17.0	22.2	22.0	25.4	21.6	26.8
Household:								
Primary family	94.1	93.8	91.6	90.1	88.8	89.6	91.9	91.7
Related subfamily	4.9	4.5	5.5	7.0	8.4	7.5	5.7	5.0
Race:								
White	77.4	83.4	61.7	69.3	53.0	63.6	53.4	62.7
Black	16.7	13.2	31.5	25.4	40.3	30.9	39.6	31.6
Parental age:								
18-29	15.8	20.0	29.3	30.2	38.3	33.0	37.1	31.7
30-44	65.5	61.9	58.1	54.7	54.8	55.2	56.1	56.9
Parental education:								
Less than high school	17.2	19.8	44.1	40.9	49.0	35.0	52.2	36.9
High school graduate	30.4	40.1	32.9	40.0	29.0	43.5	28.8	42.6
College 1+ years	52.4	40.1	23.0	19.1	22.0	21.6	19.0	20.4
Parental labor force status:								
Employed	79.6	77.5	48.3	48.9	33.4	31.2	29.7	28.1
Not in labor force	16.1	17.3	40.1	39.8	50.2	56.0	53.6	58.9
Parental full-time status:								
Full time	65.0	62.6	29.6	30.1	16.6	12.6	13.7	10.7
Part time	14.6	14.9	18.7	18.9	16.8	18.6	15.9	17.4
Parental earnings:								
Earner	85.3	85.4	58.2	62.6	45.4	49.3	41.3	47.2

Source: 1998 March Current Population Survey (CPS) data file.

living in severe poverty was smaller still in both areas. Forty-three percent of metro children living in families receiving AFDC benefits experienced severe poverty, compared with 50 percent of similar nonmetro children.

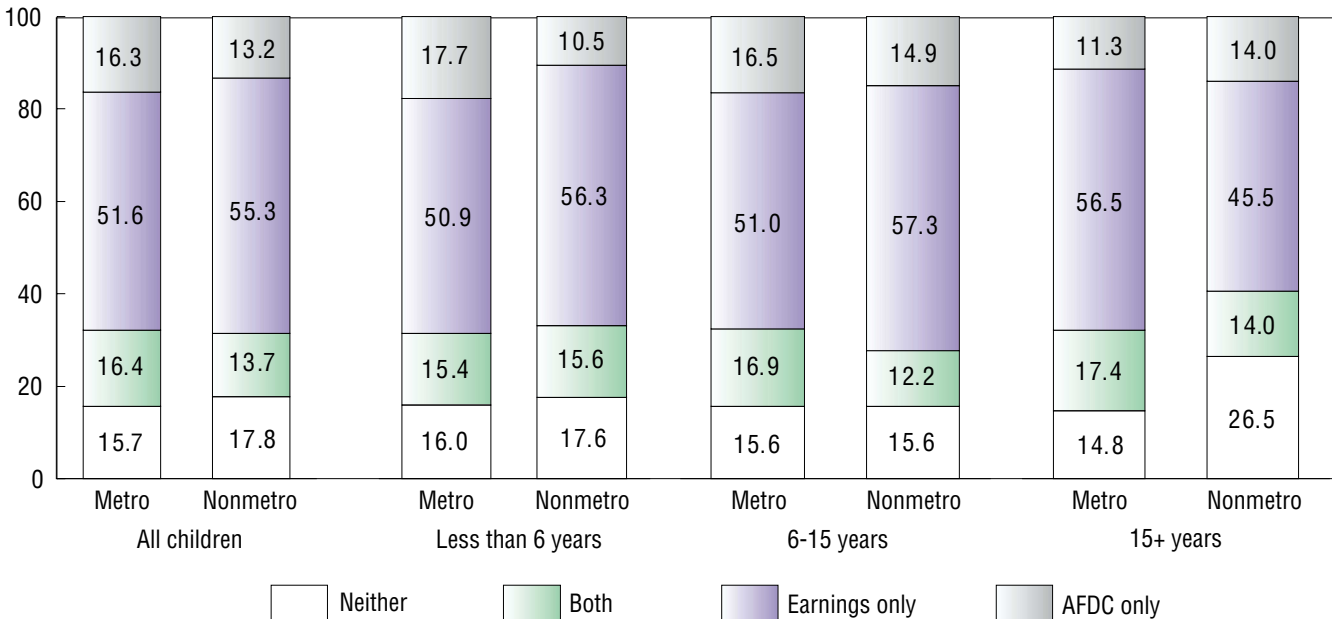
Differences in the sources of family income may help explain some of the difference in the rates of severe poverty among children. Just over two-thirds of metro young children (less than 6 years) and 72 percent of nonmetro young children

lived in families with either all or some family income from earnings (fig. 8). Eighteen and 11 percent, respectively, of children under 6 lived in families that received AFDC as their only source of income. For nonmetro children 15 and older, the

Figure 8

Sources of family income for poor children by age and residence, 1997*Over one-half of nonmetro poor children live in families whose income consists entirely of earnings*

Percent



AFDC = Aid to Families with Dependent Children

Source: Calculated by ERS using the 1998 March Current Population Survey (CPS) data file.

share in families with neither earnings nor AFDC income is almost 12 percentage points higher than for their younger counterparts.

Similarly, for children living in families receiving AFDC income, the youngest children were more likely to live in families with earnings, and children age 6 to 15 were least likely to be in families with earnings.

Unique Challenges Ahead for Rural Welfare Reform

Large proportions of children are poor and disadvantaged, as seen in the high child poverty rates in the 1990's. Poverty and disadvantage often lead to lost educational and career opportunities for adults. Child poverty rates are expected to climb higher with the abolition of AFDC, the cuts in food stamps, the work requirements and time limits under

welfare reform, and the elimination of some participants from any aid (Courtney, 1997). Also, families who receive assistance will generally get less than they would have under pre-reform programs (Courtney). Arranging adequate child care for some parents involved in work programs may be difficult. Furthermore, some families may lose necessary income because of work performance sanctions or time limits on assistance. States must address these potential problems under the new block grant flexibility, adapting their overall systems to their unique needs, preferences, and social philosophies (Kamerman and Kahn, 1996).

Under the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA), Medicaid is sustained as an

independent program outside of the block grant. Medicaid eligibility is delinked from receipt of cash assistance, and some constraints are placed on who qualifies. Medicaid coverage for poor children remains the same, except for changes with regard to children who are legal immigrants. The PRWORA significantly narrows Supplemental Security Income (SSI) eligibility for children, and as a result of the SSI-Medicaid link, many children who lose SSI eligibility will also lose Medicaid coverage. Poor and near-poor children are less likely to receive physician services, more likely to be uninsured, and more likely to live in medically underserved inner-city and rural communities. Access to health care is important in the overall quality of life for children.

Data and Definitions

Data in this article are from the March 1998 Current Population Survey (CPS). The March CPS provides a wealth of information on the demographic and socioeconomic characteristics of persons and families, making it an excellent source for studying the well-being of children under age 18. Children were matched to their parents by family and subfamily numbers. Children are the unit of analysis, with characteristics of the child's family viewed as attributes of the child. This approach is advantageous in that children can be grouped by race, residence, or another variable; this cannot be done when the family is the unit of analysis. Selected characteristics of children's parents are used to determine their effects on child poverty, and these characteristics are important influences on the family environment and well-being of children.

The poor are defined as those whose total economic resources are inadequate to meet a minimal living standard. Poverty status is determined by the poverty index, which is set by the Office of Management and Budget (OMB) and provides a range of money income cutoffs or thresholds adjusted to take into account family size, number of children, and age of family householder. If total family income is less than the corresponding poverty threshold, the family is classified below the poverty level. For example, the 1997 poverty line was drawn at \$16,400 for a family of four. Children's economic well-being depends on both their parents' incomes and family structure, with mother-only families at an economic disadvantage. Since some pooling of resources is assumed to occur among families in the same household, subfamilies and the primary family are treated as a unit in determining poverty status.

Rural areas have been identified as having hard-to-serve populations, and represent one of the most challenging issues for States in helping TANF recipients achieve self-sufficiency. Rural populations face unique challenges as they attempt to make the transition from welfare

to work. TANF recipients living in rural and remote areas frequently have limited employment opportunities in the area. Rural recipients must often travel long distances to access any available job. In addition, TANF work-readiness programs may not be available in all rural

areas in many States. Given the flexibility in program design provided to States under PRWORA, States may be able to develop innovative programs to meet the unique needs of rural AFDC/TANF recipients.

For Further Reading . . .

Mark E. Courtney, "Welfare Reform and Child Welfare Services," in Sheila B. Kamerman and Alfred J. Kahn (eds.) *Child Welfare in the Context of Welfare "Reform,"* Cross-National Studies Research Program, Columbia University School of Social Work, New York, NY, 1997.

Sheila B. Kamerman and Alfred J. Kahn, "Coping with the Changes in Child and Family Policy: Exploring the Choices," in Sheila B. Kamerman and Alfred J. Kahn (eds.) *Child Welfare in the Context of Welfare "Reform,"* Cross-National Studies Research Program, Columbia University School of Social Work, New York, NY, 1996.

James P. Ziliak, David N. Figlio, Elizabeth E. Davis, and Laura Connolly, *Accounting for the Decline in AFDC Caseloads: Welfare Reform or Economic Growth?* July 1997.

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Using Microenterprise Programs in the Rural United States

George Wallace

Microenterprise programs have received a great deal of attention in the United States in recent years as the number and scope of such programs have grown. Unlike most government programs aimed at existing businesses, these programs are frequently directed at the chronically unemployed, poor single parents, and welfare recipients. In many cases, they provide access to loans and technical training for the express purpose of creating a new class of small-scale, economically self-sufficient entrepreneurs no longer dependent upon public support.

Microenterprise programs currently operate in both developed and developing countries. A firm's "micro" status depends on ownership structure, size of business in terms of employees or sales, and access to financial capital. The designation has been applied rather loosely to include firms that employ more than 10 people, with sales of over \$100,000 per year and capital needs above \$250,000 per year. This article focuses on smaller enterprises that are either sole proprietorships, partnerships, or family businesses. They typically have fewer than five employees and generally lack access to the commercial banking sector. Their debt capital needs can usually be met with loans under \$15,000.

According to the Directory of U.S. Microenterprise Programs (1997), programs have grown from only a few in 1985 to 266 in 44 States in 1996 (fig. 1). The Directory reports that microenterprise programs in 1995 served 36,211 microbusinesses with loans

and technical assistance; of these, 13,787 (or 38 percent) were startups. Loans made to individuals averaged \$9,248 while those made to peer-lending groups averaged \$1,597 per group member. Loan sizes varied from \$1,000 to \$500,000. Seventy-five percent of programs had a client base that was majority women. Microenterprise programs serve both rural and urban counties, but data on program operation, services, or benefits are not available separately for rural and urban areas. This study draws from the international experience and our knowledge of rural areas to help identify attributes of a successful microenterprise program in rural areas.

Because microenterprise programs assist people who are often new to business, it is more difficult to develop operational guidelines for eligibility and loan purposes, for example, than in financial assistance programs designed to help more established businesses. Practitioners and donors continue to

learn hard lessons about the need for paying close attention to performance standards and developing more useful and reliable measures of program effectiveness. The risks are considerable with these programs. In their study of international development finance programs, Adams and Von Pischke conclude that managerial ability, product prices, asset control, and input costs are likely to be more serious constraints to business success than credit. While not all international lessons apply to microenterprise clients in the rural United States, many do. Knowledge of what has been successful internationally will help to shape more effective and efficient U.S. microenterprise programs.

Microenterprise Is a Successful Development Tool Internationally

Of relatively recent origin (the 1960's), most modern microloan programs follow the model developed by the Grameen Bank in Bangladesh. Program operation

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varies, depending on geographic location, clientele served, and mix of funding sources.

In the Grameen Bank model, virtually all startup capital is supplied through philanthropic funding. Basically free as long as certain targeting and loan purpose goals are met, this funding comes from international donors, such as USAID, and will typically be matched by foundations and national governments. Successful programs have applied the following rules of operation to decrease their dependence on these philanthropic sources and to attain long-term self-sustainability.

Loan Portfolios Are Managed According to Successful Business Practices. Although loan amounts vary, most international microenterprise programs concentrate on providing very small loans, averaging the equivalent of less than \$100 per borrower. Many loans are for short-term operating expenses or to purchase small-scale equipment for startups. Loans are generally short-

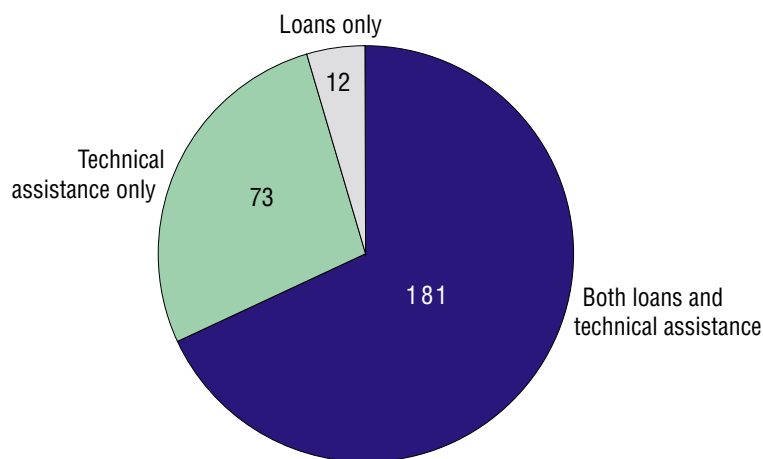
term, from a few days to as long as 1 year. Loan terms offer flexible repayment options and allow balloon payments. Repayment schedules may be as frequent as daily and usually are designed to mirror the borrower's cash flow patterns. Frequent repayments prevent borrowers from accumulating cash that might otherwise be spent on consumption rather than loan repayment. Loans are made at or above relative market interest rates, reflecting higher financial risk. Still, these rates are usually lower than those offered by informal money market lenders.

The use of market interest rates allows improved coverage of operational costs, including loan losses. In addition, successful programs avoid providing unintended "grants" in the form of subsidized lending rates that are often captured by economically viable businesses. Since it can be almost impossible to screen out these viable businesses by some method other than loan

price, only a minority of the targeted population is usually reached. Incentives such as interest rebates or penalties such as additional charges on late payments are used to motivate timely repayment of loans. The penalty for poor performance is immediate, additional borrowing is prohibited, and the borrower's access to credit is eliminated. While conventional wisdom has held that low-income borrowers cannot pay market interest rates, Lapar and Graham found otherwise. They examined a sample of 400 Philippine microenterprises engaged in a variety of activities, and found that although these microenterprises are generally credit-constrained, potential return to credit is high, suggesting that these businesses can pay market rates of interest.

Obligatory Savings Increase Clients' Stake in Program's Success. Successful international programs require obligatory savings by their clients. Possibly the most important deficiency overcome by successful programs is the imbalance between sizable subsidized loan portfolios and lack of savings among the borrowing population (Yaron). Promoting better deposit and savings facilities was found to be essential for successful rural development. In addition, obligatory savings provide additional loanable funds to the microlender, a financial cushion to the borrower, and an additional equity stake in the business. Most international development experts agree that by improving savings facilities that pay market rates of interest, the rural poor have been given a more efficient way to store value. By linking borrowing and savings services, these clients have learned overall financial discipline more quickly, which has translated into higher client success rates.

Figure 1
Microenterprise programs, 1996
Most of the 266 active programs offered both loans and technical assistance



Source: C. Alexander Severens and Amy J. Kays, eds., *1996 Directory of United States Microenterprise Programs*, The Aspen Institute, 1997.

Peer Lending Reduces Loan Transaction and Administrative Costs.

Peer-lending groups are comprised of a small number of individuals who agree to be jointly liable for repayment of a loan that is made to the group and then divided among the members based on the amount needed. Peer-lending groups allow the burden of screening and monitoring loan performance to be shifted to the group, effectively reducing loan transaction and administrative costs for the microlender. These groups have resulted in loan repayment rates of near 100 percent. High loan loss rates are often the principal cause of fund insolvency, illiquidity, and increased reliance on government bailouts. People in positions of leadership or authority help assess borrowers' reputations, reducing screening costs, and determine which prospective clients will make a reliable peer group. Joint liability for short-term loans allows a small, homogeneous group to reduce the "free-rider" problem that is usually

Economic differences between the United States and developing countries tend to make the implementation of microenterprise programs more difficult here.

inherent, for example, when lending to large cooperatives. When loans are made to cooperatives, some members can have poor financial performance but still obtain more financing because of their membership and the cooperative's general performance. Thus, the nonperformers get a free ride at the expense of the high performers. As a rule, joint liability is effective only within small like-minded groups where peer pressure can be brought to bear.

Operating Microenterprise Programs in the United States

Microenterprise programs are most likely to be sustainable when they follow sound business practices. Successful microenterprise programs also create innovative methods of microlending that are tailored to the needs of their clientele. Microenterprise program managers face four basic obstacles.

- Geographic, demographic, and economic characteristics that work against the success of rural microenterprises.
- The need to develop efficient and relatively low-cost operational procedures for identifying the success potential of prospective clientele.
- The need to develop sound business principles for processing, monitoring, and servicing the resulting loans.
- The need to find innovative ways of leveraging philanthropic capital to achieve adequate rates of return on loan portfolios, to minimize overhead costs, and to gain credibility with investors. Only then will the programs' capital grow without constant reliance on philanthropic or State concessional funds or bailouts.

Economic differences between the United States and developing countries tend to make the implementation of microenterprise programs more difficult here. Many developing economies lack the resources to provide social safety nets. International microloan operators have suggested that the presence of safety nets in the United States impedes risk taking among the chronically unemployed and nonworking poor (Stearns). In rural areas, population density is low,

which raises operating costs. Also, the United States demonstrates less cultural homogeneity than most international sites. Homogeneity of values complements the function of the peer group process. The U.S. economy is more capital-intensive, increasing the investment required for businesses of viable size. In many developing economies, a very small loan could enable a new business startup or a sizable expansion. In developing economies, financial services markets are significantly underdeveloped relative to those in the United States. Thus, obligatory savings likely would not have as dramatic an impact on the success of microloan programs in the United States. However, the benefits of increased financial discipline and a larger equity stake in the business would be a positive development for microloan borrowers regardless of where they are located.

Rural America is diverse, with various concentrations of population subgroups. Traditional resource-based industries are declining as sources of jobs and income, much of the local labor force is relatively low-skilled, and distance tends to hinder the economic development of many rural areas. These characteristics complicate the environment for developing uniform, lower cost microlending and training programs in some rural areas. It remains to be seen if new information technologies will be able to offset some of these negative effects.

Loanable Fund Sources

As with programs abroad, most microenterprise funds initially come from foundations and other non-profit sources, including governments. Recently, interest has increased in microenterprise programs at all levels of government.

The Federal presence in microprograms is small at present (see “Federal Funding Opportunities for Microenterprise Programs”), but increasing. Government and non-profit donations can be used to guarantee and thus leverage for-profit sources of investment. Commercial lender involvement in microenterprise activities, for example, helps these lenders meet the requirements of the Community Reinvestment Act. However, participation by commercial intermediaries has been slight in the absence of a reliable method of lending and loan servicing that creates a clear line between providing charity as opposed to disciplined investment in an emerging microloan market. Here again, the low population density and remoteness of some rural areas may affect access to commercial sources of credit. Many rural communities are often served by a single or a very few commercial lenders.

Targeting, Screening, and Monitoring Programs

Successful microloan borrowers usually have employable work skills and experience, but lack access to the financial or physical assets needed to start or expand a business. This client profile has been important to the success of international programs. For example, prior to microlending, Bangladesh had a large pool of prospective borrowers with undercapitalized labor skills. These individuals were selling their labor skills at near-zero wages because someone else controlled the essential elements of production and/or distribution. With access to capital, a “real” credit constraint was overcome and borrowers were able to earn positive rates of return on both their labor and the financial capital that was invested in their

businesses. Business viability is further enhanced by coupling credit access with technical training to improve production methods and financial management.

No hard evidence indicates whether a similar pool of skilled but undercapitalized labor exists among the rural poor in the United States, but limited information on education and skill levels and present employment patterns among the low-income poor suggests not. Thus, programs need to identify those applicants with the aptitude to make up such a pool of undercapitalized labor. Microloan programs that also develop client skills are very expensive, and improved screening would help decrease operating costs and improve program effectiveness.

Successful Portfolio Management in Rural Microlending

How do rural microenterprise programs achieve adequate rates of return on loan portfolios and minimize overhead so that operations can gain credibility? What can be done to provide efficient and relatively low-cost operational procedures for screening, processing, monitoring, and servicing the loans of rural microenterprise programs? First, as with the international experience, loans can be priced at market interest rates to instill financial discipline in the borrower. In addition, providing a full range of financial services to this developing class of businesses would promote the viability of the loan program. Second, since rural areas are hampered by remote and diverse clientele, alternatives to the standard peer-lending model would assist in screening, loan collection, and reducing other transaction costs. Third, consolidating service delivery operations could create economies

of scale and reduce the high per unit cost of technical training and education. And fourth, successful microenterprise supporters need to steer the program where it can do the most good, recognizing that credit is not always the primary constraint. Building human capital through training and developing social capital by linking clients, institutions, and the community at large may prove to be of more lasting value (Servon).

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Charging Market Interest Rates

Microlenders are beginning to realize the necessity of charging market rates of interest on loans. However, many still view below-market rates as a cornerstone of business development assistance. This policy is intended to enhance the financial situation of borrowers, and clearly gives them a cost advantage, but not without consequences (Mikesell and Wallace). The impact of these unintended consequences varies, and is described by the effects they have in the following areas.

- Subsidized loan programs can neither grow nor become self-sustaining. Typically, the low interest rates result in lenders’ operating income that is below operating costs, requiring continued injections of capital from donors.
- Resource allocations are distorted. Distortions occur because other businesses may find their

Federal Funding Opportunities for Microenterprise Programs

Microenterprise projects are funded by a variety of sources, including State and local governments, foundations, and private businesses. Most Federal funding sources emphasize either business technical assistance or loan programs. The following funding descriptions are organized under loan programs, technical assistance programs, and mixed programs. For all except the Small Business Administration's Microloan Program, microlending is only one of many eligible purposes for which program funds can be used. Agencies funding loan programs generally refer to the organization receiving funds as an "intermediary" because this organization will in turn provide a loan to a business. The number of programs may give the impression that Federal involvement in microenterprise programs is sizable. However, in most cases, the dollar amount is small relative to other types of Federal business assistance.

Loan Programs

The Department of Treasury—Community Development Financial Institutions (CDFI) Fund provides capital to intermediaries as well as funds to increase the capacity of intermediaries. A one-to-one match is required for awards. The CDFI Fund does not allow its awards to be used for business technical assistance.

The Department of Agriculture, Rural Business Service—Intermediary Relending Program (IRP) provides funding to an intermediary for businesses in rural areas with populations under 25,000. Funds are available to nonprofit corporations and public agencies at 1-percent interest for up to 30 years. The intermediary can set its interest rates as long as they are lawful. Loans cannot fund tourism, recreation, or agricultural production ventures.

Technical Assistance Programs

The Department of Health and Human Services (HHS), Office of Community Service has strict rules regarding the beneficiaries' income level for program eligibility. Currently, HHS has two funding sources: the Discretionary Grants Program and the Job Opportunities for Low Income People. Grants competitively awarded by HHS can go to agencies in rural areas.

The Department of Labor, Employment and Training Office-Job Training Partnership Act Microenterprise Grant Program provides funds to enhance community-based microenterprise activities. Recently, the program has focused on the long-term unemployed and dislocated workers.

The Department of Labor—Unemployment Insurance Demonstration provides funds to States to establish self-employment assistance programs as part of the unemployment compensation system, rather than for microenterprise projects per se. Funds are not available for business technical assistance. This program is similar to successful programs in Europe and the States of Washington and Massachusetts, where employment compensation is given in a lump sum to the unemployed benefits recipient to invest in self-employment activities.

Programs That Provide Both Loan and Technical Assistance

The Small Business Administration—MicroLoan Program lends funds to nonprofit intermediaries who relend the funds to microenterprises. Assistance is targeted to women, minorities, low-income individuals, and others unable to access traditional credit. Intermediaries can request up to 25 percent of their total loan request to fund technical assistance, including management and marketing. Technical assistance grants are also made available to intermediaries who provide access to other capital sources but do not lend funds themselves. There is a matching requirement of 50 percent. Rural intermediaries may participate.

The Department of Housing and Urban Development—Community Block Grants program has two types of awardees: Entitlement Communities and State Development Authorities. Rural areas may receive assistance from either program, and regulation changes specify that microenterprise lending and technical assistance programs are eligible to compete for assistance.

The Department of Health and Human Services, Office of Refugee Resettlement—Microenterprise Program provides funds to nonprofit refugee resettlement groups and local development corporations. Funds, which must be awarded to a State or nonprofit agency, can be used for training and revolving loan funds. Funding is available to both rural and urban areas.

inputs more costly and competitors lose business to the subsidized borrower.

- Interest subsidies are inflexible. The borrower's direct subsidy is the amount by which cash-flow expenses are lowered. To benefit the borrower, the subsidy needs to be large, which ultimately depresses the repayment cycle of the lender and slows the building of a capital base to relend. Borrowers are sheltered from market incentives because of the cost advantages afforded by the subsidy and therefore will be insulated from the consequences of poor management practices.
- All borrowers like low interest rates. Thus, subsidies increase the difficulty of screening applicants, raising the need for a screening method other than price. To keep repayment rates high to satisfy donors, microlenders may be tempted to make loans to "blue-chip" borrowers.

Building Program Infrastructure To Reduce Per Unit Costs

Microenterprise programs can be very expensive. It cost an estimated \$1.47 per dollar loaned to make and manage a microenterprise loan in 1995 (Edgcomb and others). Furthermore, additional training averaged nearly \$2,000 per client. Technical assistance and training are costly because of the heterogeneity of small enterprises. A possible solution is to identify

those attributes of operating microenterprise programs and small businesses that are consistent across locations and business types. Materials preparation and training could be done regionally with funding and expertise pooled and the associated costs spread over many more clients than is the case locally. Loan cost and training expenses have to be brought more closely in line with revenue potentials of the microenterprises themselves, or these programs are not likely to be self-sustaining.

Summary and Conclusions

Based on international experiences and limited research in the United States, a successful microlending program will do the following:

- Provide access to credit at market rates of interest to a clientele that already possess in-demand labor skills but are undercapitalized.
- Link microenterprise policy with a policy to improve savings and thus asset accumulation for microenterprise clientele. In the United States, the Individual Development Account (IDA) may do this. IDA's are dedicated savings accounts that can be used only for specific purposes such as purchasing a first home, receiving education or job training, or capitalizing a small business. The Assets for Independence Act, which

became law in October 1998, provides for a series of demonstration projects to determine the viability of such policy actions.

- Apply peer-lending group principles, which provide cost-effective methods of screening borrowers and maintaining high loan repayment rates. Assuming that these principles can be applied to microenterprise programs in the rural United States, problems of client readiness, creditworthiness, and scarcity of potential entrepreneurs in rural areas may still exist.
- Develop programs with fee-based systems to compensate for training services. Studies by the Aspen Institute (Edgcomb and others) suggest that program operating costs are made higher because of the large number of nonborrowing clients who receive free technical assistance.
- Develop more stable sources of funding, realistic expectations for scale of operations financed, and universal performance measures that can be applied across all microenterprise programs.
- Devise compelling "best-practices" methodology for operating microenterprise programs.
- Develop program infrastructure to support the implementation of a more market-disciplined approach to microenterprise development.

For Further Reading . . .

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